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NORTHERN
ORION
RESOURCES INC.

2003 ANNUAL REPORT

2003 ANNUAL REPORT

NORTHERN
ORION
RESOURCES INC.





TRANSFORMING
WORLD-CLASS
DEPOSITS
VIEW WORLD-CLASS
RETURNS



**PRODUCING COPPER AT
\$0.00 PER POUND,
NET OF GOLD BY-PRODUCTS**

STRONG ECONOMIC GROWTH IN 2003 IN MOST COUNTRIES AND PARTICULARLY IN THE ASIAN ECONOMIES CAUSED A SIGNIFICANT SHIFT IN THE SUPPLY/DEMAND BALANCE FOR BASE METALS RESULTING IN SHARPLY HIGHER PRICES ACROSS THE BOARD. THE REBOUND IN THE COPPER MARKET WAS DRAMATIC. DEMAND EXCEEDED SUPPLY WITH WORLD COPPER STOCKPILES DECLINING BY APPROXIMATELY 50% OVER THE YEAR AND COPPER FINISHING THE YEAR AT JUST UNDER \$1.00 PER POUND.

Northern Orion capitalized on this transitioning market by acquiring interests in two of the world's richest copper deposits just as copper prices were responding to the surge in demand. In the last 12 months, Northern Orion was transformed from a junior explorer into a highly profitable copper and gold producer with strong cash flow and an impressive long-term inventory of copper and gold reserves worth \$22 billion.

Key Acquisitions

In February 2003, Northern Orion made an offer to acquire BHP Billiton's 72% stake in the Agua Rica deposit in Argentina. This transaction was completed in May 2003 to consolidate 100% ownership of one of the world's richest copper deposits (based on value per tonne of ore*) under Northern Orion. Agua Rica has the potential to provide Northern Orion with more than 25 years of low-cost copper production. Over 80% of the reserves of Agua Rica are already in the measured and indicated category, and the deposit lies at or near surface. Through the acquisition of the BHP Billiton interest, our shareholders get the benefit

today of approximately \$55 million in previous expenditures on Agua Rica which defined the geological reserves and the metallurgy of the orebody.

Within 6 weeks of the Agua Rica acquisition, Northern Orion acquired 12.5% of the world's lowest-cost copper mine, Bajo de la Alumbrera, also from BHP Billiton. Approximately \$1.3 billion was spent on five facilities in three provinces, with



* Nesbitt Burns Report November 2003

2003: A YEAR OF TRANSFORMATION

the plant commencing production in 1998 and current annual production levels reaching approximately 200,000 tonnes of copper and 600,000 ounces of gold. Northern Orion's interest in Alumbraera gives our company proportional annual production of approximately 55 million pounds of copper and 75,000 ounces of gold, which is expected to provide us with substantial annual cash flow until 2011.

Northern Orion acquired its interest in Alumbraera in June 2003 for \$91.5 million. BHP Billiton agreed to carry \$28.6 million of the acquisition amount until June 2005 and Northern Orion issued \$78.5 million in equity to pay for the remaining \$60 million plus costs. The company has repaid all of the \$28.6 million to BHP Billiton with cash and proceeds from the \$24.5 million debt financing completed in March 2004 provided by Bayerische Hypo-und Vereinsbank (HVB).

The synergy between the two assets is significant: Agua Rica is only 34 km (20 miles) from Alumbraera and the two deposits share similar metallurgy and recovery processes. Northern Orion is currently exploring alternatives involving the utilization of some of the existing infrastructure at Alumbraera in the development plans for Agua Rica. This may eliminate or reduce many of the risks associated with new mine development and could lower capital requirements.

With its interests in Alumbraera and Agua Rica, Northern Orion is able to provide investors with current exposure to strong copper and gold prices and to participation in the longer term upside from a gross value of \$22 billion of drilled and defined metals inventory contained in the Agua Rica deposit.

2003 FINANCIAL HIGHLIGHTS FROM ALUMBRERA

Attributable share of operating cash flow (before interest, depletion, depreciation, amortization and tax)

- \$14,989,000 (\$0.14/share) for Q4, a 74% increase over Q3
- \$23,625,000 (\$0.41/share) for 2003

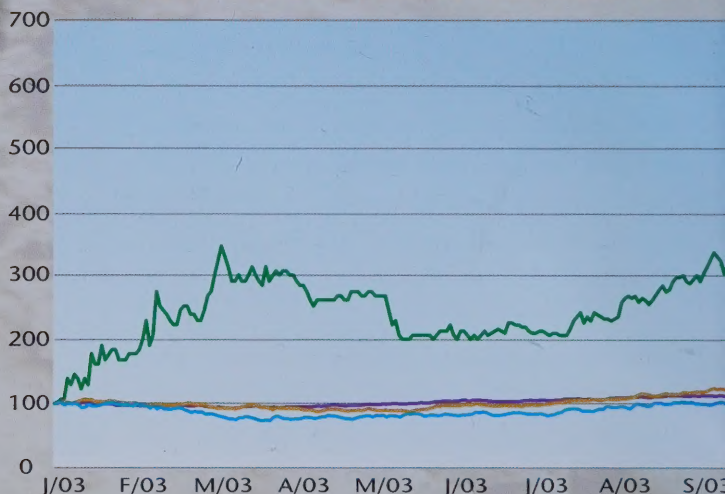
Equity in earnings

- \$7,486,000 (\$0.07/share) for Q4
- \$10,562,000 (\$0.19/share) for 2003





NORTHERN ORION SHARE PRICE RELATIVE TO



Financial Strength

Maintaining strong support of the capital markets is a core strategy of Northern Orion. Several initiatives were undertaken in 2003 to expand our institutional and retail shareholder base. Senior management of Northern Orion is committed to continuing this focus in 2004. Our company now enjoys the support of a broad list of strong institutional shareholders in Europe, North America and Australia, an expanding retail shareholder base, strong underwriting support from investment banks that are leaders in mining finance, and a growing roster of research analysts that follow our progress. Over \$80 million of new equity was raised in the first half of 2003 and over 135 million shares traded on the TSX in the second half of the year alone. One of our commitments to shareholders was to list Northern Orion on the American Stock Exchange. We met the Amex listing requirements and Northern Orion's common shares commenced trading on April 8, 2004 under the symbol NTO.

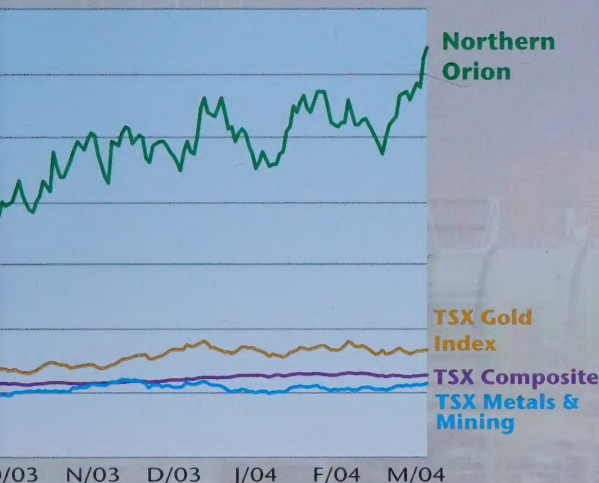
Northern Orion also was successful in gaining the support of HVB in a \$24.5 million commercial debt financing completed on March 4, 2004. The proceeds from this financing were used to repay the outstanding BHP Billiton vendor take-back debt incurred as part of the Alumbrera purchase, improving Northern Orion's working capital position. Our company remains unhedged, providing shareholders with 100% exposure to future increases in copper and gold prices.

These acquisitions and financings have led Northern Orion to post solid financial results from operations for the year ended December 31, 2003, as well as a strong balance sheet going forward.

Northern Orion's attributable share of operating cash flow (before interest, depletion, depreciation, amortization and tax) from Alumbrera was \$14,989,000 for the fourth quarter of 2003 (\$0.14 per share) and \$23,625,000 (\$0.41 per share) for the period from June 24 (date of

2003: A YEAR OF TRANSFORMATION

MAJOR TORONTO INDICES



ownership) to December 31, 2003. The Company received \$7,491,000 in cash distributions from the Alumbra Mine during this period. The Company's equity share in earnings from Alumbra was \$7,486,000 (\$0.07 per share) for the fourth quarter and \$10,562,000 (\$0.19 per share) for the year ended December 31, 2003.

Average realized prices for copper were \$0.91 and \$0.85 for the quarter and year, respectively, on cash costs (net of gold credits) of minus \$0.05 and \$0.02 per pound, respectively.

At December 31, 2003, Northern Orion's balance sheet included working capital of \$10,756,000 and cash and cash equivalents of \$11,387,000. On a consolidated basis, Northern Orion recorded net earnings of \$2,356,000 or \$0.04 per share in 2003, compared to a net loss of \$1,269,000 or \$0.08 per share in 2002. Canadian generally accepted accounting principles require us to include a non-cash charge for stock-based compensation of \$5,043,000 (\$0.09 per share), which reduced our otherwise impressive net earnings results.

MARKET PERFORMANCE HISTORY

(January 1 2003 through March 31 2004)
(All numbers adjusted post 10:1 consolidation)

Share price

January 1, 2003	Cdn. \$0.65
March 31, 2004	Cdn. \$4.14
Percentage increase:	537%

Market capitalization

January 1, 2003:	Cdn. \$ 12.3 million
March 31, 2004:	Cdn. \$443.8 million
Percentage increase:	3,520%

Average daily trading volume

929,000 shares (TSX)





**ANALYSTS ARE PROJECTING
A COPPER DEFICIT OF
600,000 TONNES IN 2004**

THE PRICE OF COPPER ROSE 48% IN 2003, ITS LARGEST ANNUAL GAIN IN NINE YEARS. THE FIRST FEW MONTHS OF 2004 HAVE SEEN FURTHER GAINS. LAST YEAR, WORLDWIDE USE OF COPPER EXCEEDED THE ANNUAL SUPPLY OF 15.3 MILLION TONNES BY 308,000 TONNES. ANALYSTS ARE CURRENTLY PROJECTING A DEFICIT OF 600,000 TONNES IN 2004 AND A NEED FOR 800,000 TONNES OF NEW ANNUAL SUPPLY CAPACITY TO MEET RISING DEMAND.

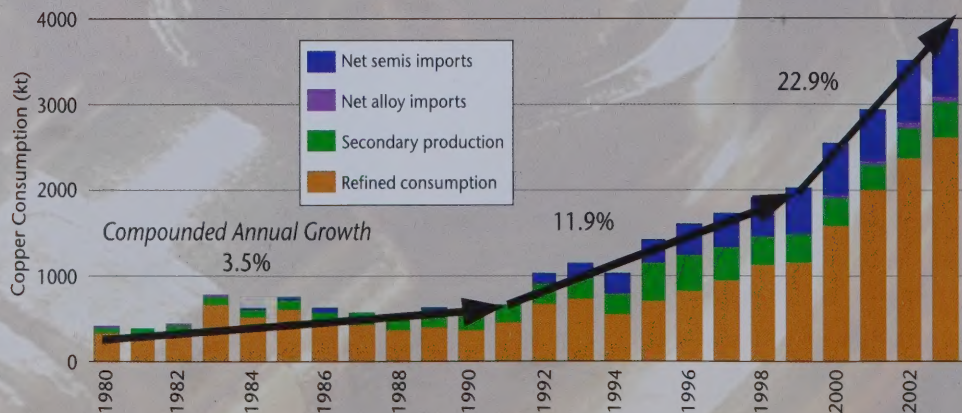
The past six-year bear market for metals resulted in a dramatic reduction in exploration expenditures and capital investment by the major mining companies. With no new major copper discoveries in the past six years and a 6 to 10 year production development cycle, there is little prospect for dramatically increasing supply in the short term to meet rising demand. Depleted worldwide inventories cannot make up for the production shortfall.

China alone, a nation of 1.3 billion people with the world's fifth largest economy, already consumes almost 25% of the global copper supply. With a

rapidly industrializing economy that last year accounted for more than half of the growth in world trade, China is driving the shift in metal market fundamentals as it copes with its new role as one of the world's economic powers.

Over the past two years, China's copper consumption has risen by more than 40%, far outstripping domestic production. China Metals, the official government agency, expects the gap to widen as urbanization and industrialization continue to accelerate import demand for metals for use in infrastructure, construction, and manufacturing. Electrical infrastructure build-out

CHINESE METAL CONSUMPTION



COPPER DEMAND OVERWHELMS SUPPLY

will require an 8% to 10% annual increase in copper supply. Currently, only a small proportion of China's population is urbanized. Projections indicate that more than 10 million people will migrate to cities each year in search of a higher standard of living. That will require the equivalent of building a city of 10 million each year complete with copper wiring and piping, appliances, and vehicles.

If China's copper consumption increases at the rate experienced by Korea and Taiwan when those countries passed through their initial stages of industrialization, in seven years China will need 50% more copper than it now consumes - nearly 40% of the world's current annual production.

Although global copper demand has been aided significantly by China, it is now pulled by more than the Chinese growth phenomenon alone. Close behind China on the industrialization path are a number of other emerging Asian economies - India, with more than 1 billion people, Thailand, Malaysia, Indonesia, and Vietnam.

COPPER DEMAND

- China consumes almost 25% of world copper supply (equal to USA)
- Urbanization of an estimated 250 million Chinese in the next 20 years and Indian demographics similar
- World supply of 15.3 million tonnes per annum
- Idled capacity of only 2-3 months of demand growth
- No new discoveries in the last 6 years
- 6 to 10 year production development cycle





MATURE, SUSTAINABLE OPERATING CASH FLOW FROM THE WORLD'S LOWEST-COST COPPER MINE

WHEN NORTHERN ORION ACQUIRED ITS 12.5% INTEREST IN ALUMBRERA, THE OPERATION WAS JUST HITTING ITS STRIDE AS THE WORLD'S LOWEST-COST PRODUCER OF COPPER, NET OF BY-PRODUCTS. DURING ITS FIRST FEW YEARS, ALUMBRERA STRUGGLED WITH DEPRESSED METAL PRICES AND OPERATIONAL PROBLEMS.

The growing pains and operational issues were brought under control by a new management team at the same time that Argentina devalued its peso in 2001. Since then, Alumbraera has achieved consistent and significantly higher copper output and gains in efficiency. The peso devaluation, combined with rising copper/gold prices and improved metal recoveries, reduced operating costs significantly. By the fourth quarter of 2003, Alumbraera was producing copper for less than zero cents (\$0.00) per pound, net of gold by-product credits. With current revenues from gold production, Alumbraera has achieved the status of the world's lowest cost copper mine.

2004 will be the first full year in which the operations of Alumbraera will be integrated into the financial statements of Northern Orion. Alumbraera is undertaking a reserve and mine plan review with increased metal pricing (previous modeling was done at \$0.80/lb copper and \$295/oz gold) with a target completion in July 2004. As per the current life of mine plan, Northern Orion expects production levels at Alumbraera to decrease slightly from 2003 to 2004 as a result of reduced grade, and then recover from 2005 onwards. The mine continues to run efficiently and anticipates the benefit of increased recovery once the flotation plant upgrade is completed in the second quarter of 2004.

Financial highlights from Alumbraera for the year ended December 31, 2003 are as follows (note: Northern Orion's share of Alumbraera operations is from June 24, 2003, the date of acquisition):



BAJO DE LA ALUMBRERA

	Three Months Ended December 31, 2003	Year Ended December 31, 2003
Key financial statistics		
EBITDA	\$ 14,989,000	\$ 23,625,000
Equity in earnings	\$ 7,486,000	\$ 10,562,000
EBITDA per share - basic	\$ 0.14	\$ 0.41
Equity in earnings per share - basic	\$ 0.07	\$ 0.19
Average realized price of copper/lb.	\$ 0.91	\$ 0.85
Average realized price of gold/oz.	\$ 379	\$ 371
Copper cash cost per pound, net of gold credits	\$ (0.049)	\$ 0.020
Key operating statistics		
Pounds of copper produced	15,699,446	28,998,050
Ounces of gold produced	25,297	44,955

Note: All financial figures are stated in U.S. dollars.

ALUMBRERA PRODUCTION

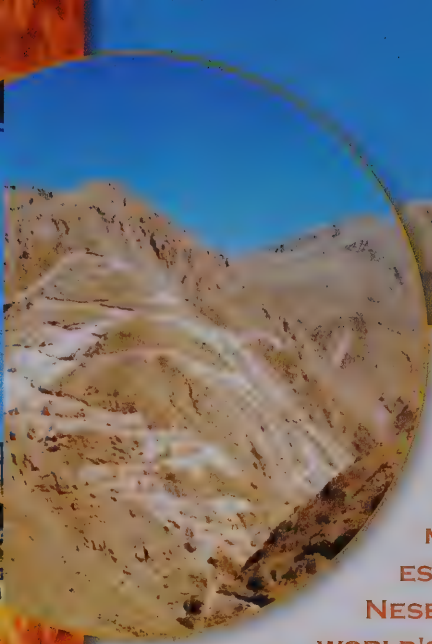
- Proven and probable reserves 2003
 - 4.1 billion pounds of copper
 - 7.1 million ounces of gold
- Forecast production 2004 (100%)
 - 388 million pounds copper
 - 570,000 ounces gold



HISTORY

- **Capex: \$1.3 billion**
(with associated infrastructure)
- **Complex includes 5 facilities in 3 provinces:**
 - Open pit mine
 - 316 km concentrate slurry pipeline
 - 202 km power line
 - filter plant and rail loading facilities
 - port and handling facilities
- **80,000 tpd production started September 1997**
- **Commercial production achieved February 1998**
- **Expansion to 100,000 tpd 2002**





OVER \$22 BILLION IN DEFINED METAL
VALUE FROM DRILL-DEFINED 18 BILLION POUNDS
OF COPPER AND 10 MILLION OUNCES OF GOLD
WORTH MORE THAN \$130 PER SHARE (FULLY DILUTED)

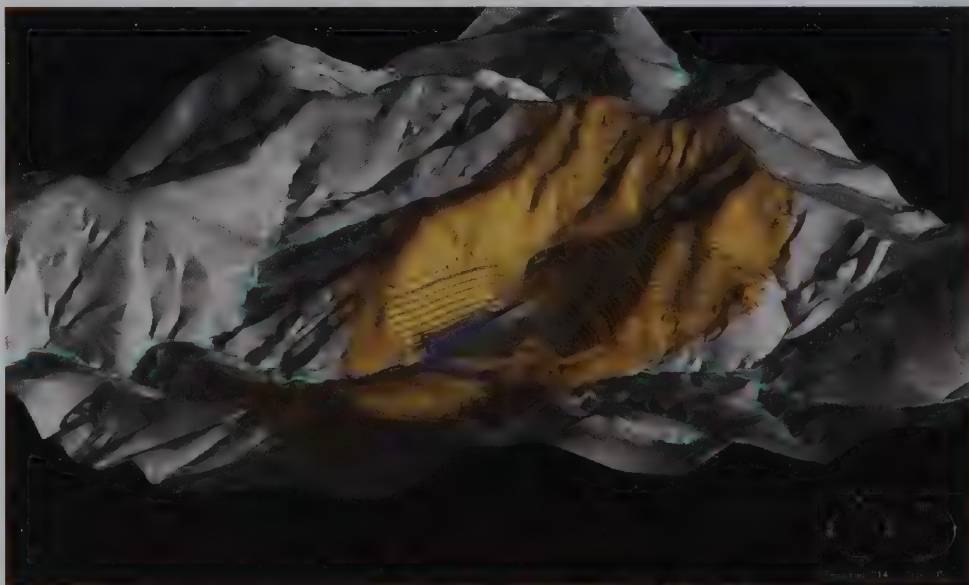
THE \$12.6 MILLION ACQUISITION OF BHP
BILLITON'S 72% INTEREST IN AGUA RICA GAVE
THE COMPANY 100% OWNERSHIP OF AGUA
RICA'S 18 BILLION POUNDS OF COPPER AND 10
MILLION OUNCES OF GOLD. AGUA RICA'S
ESTIMATED ROCK VALUE OF \$18.67 PER TONNE (BMO
NESBITT BURNS, NOVEMBER 2003) MAKES IT THE
WORLD'S FIFTH MOST VALUABLE COPPER/GOLD DEPOSIT
PERTONNE OF ORE KNOWN TODAY.

Perhaps most importantly, this vast, well-drilled, and defined metal inventory sits on the surface and close to required infrastructure, with the potential to dramatically reduce development costs.

From 1994 to 2002, Northern Orion and BHP Billiton together spent more than \$55 million at Agua Rica to define the deposit's resource and complete pre-development, including drilling 176 holes in excess of 65,000 metres, bulk sampling, bulk metallurgical tests, and environmental assessments. The project is

now advanced to the point where Northern Orion believes it could bring Agua Rica into commercial production within five years and for significantly less than any comparable development.

Northern Orion is investigating the construction of a 60,000 tonne-per-day mine and processing facility that would produce approximately 180,000 tonnes of copper annually, with associated gold and molybdenum by-products.



AGUA RICA

The company places considerable importance on providing support for the communities in which we operate and on protecting the environment. Social and educational programs undertaken in the Agua Rica region since the mid-1990s have been maintained as part of our partnership with the community. During 2003, in addition to participating in Alumbra social programs, we supported the training of more than 120 school teachers, promoted the awareness of the regional environment through the publication of bio-diversity information brochures, maintained contributions to key local infrastructure projects, and continued environmental baseline monitoring that was established more than eight years ago as part of ongoing efforts to minimize the environmental impact of Agua Rica's development.

We are committed to minimizing environmental risk and impact at every stage of the mining cycle and incorporating concurrent and final reclamation into mining plans and the design and construction of Agua Rica. Revisions to the design of the Agua Rica mine have recently been made and we anticipate significant reductions in the amount of waste rock that would be produced.

Northern Orion has been closely involved with the communities that are associated with Agua Rica and Alumbra through the programs that we have had in place over the last eight years. We believe that our successes will be the communities' successes and we will continue to operate in a manner that minimizes our footprint on the environment and supports the communities involved with us.

WORK TO DATE

- \$55 million spent
- 176 holes for 65,000m drilling
- Bulk metallurgical tests
- Environmental assessments
- Bulk sample taken and tested
- Sales grade concentrate produced
- Rock value of \$18.67/t is the 5th highest value copper/gold deposit known today

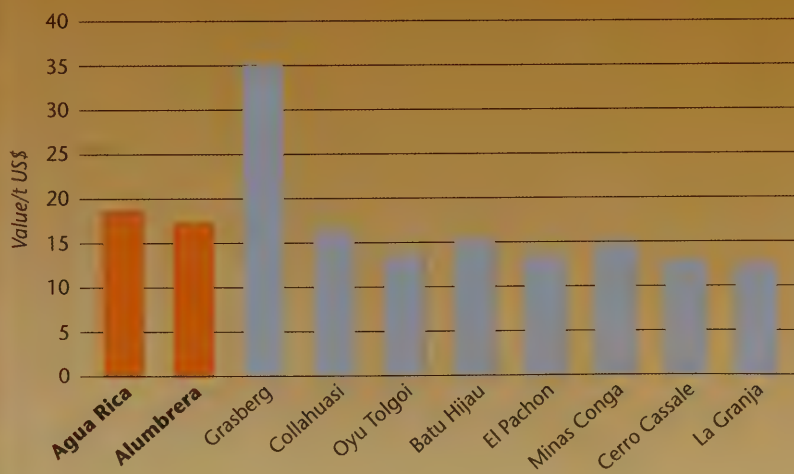


**NO BACK-IN RIGHTS TO
ANY THIRD PARTY**

**ESTIMATED LIFE OF MINE
OF MORE THAN 25 YEARS**



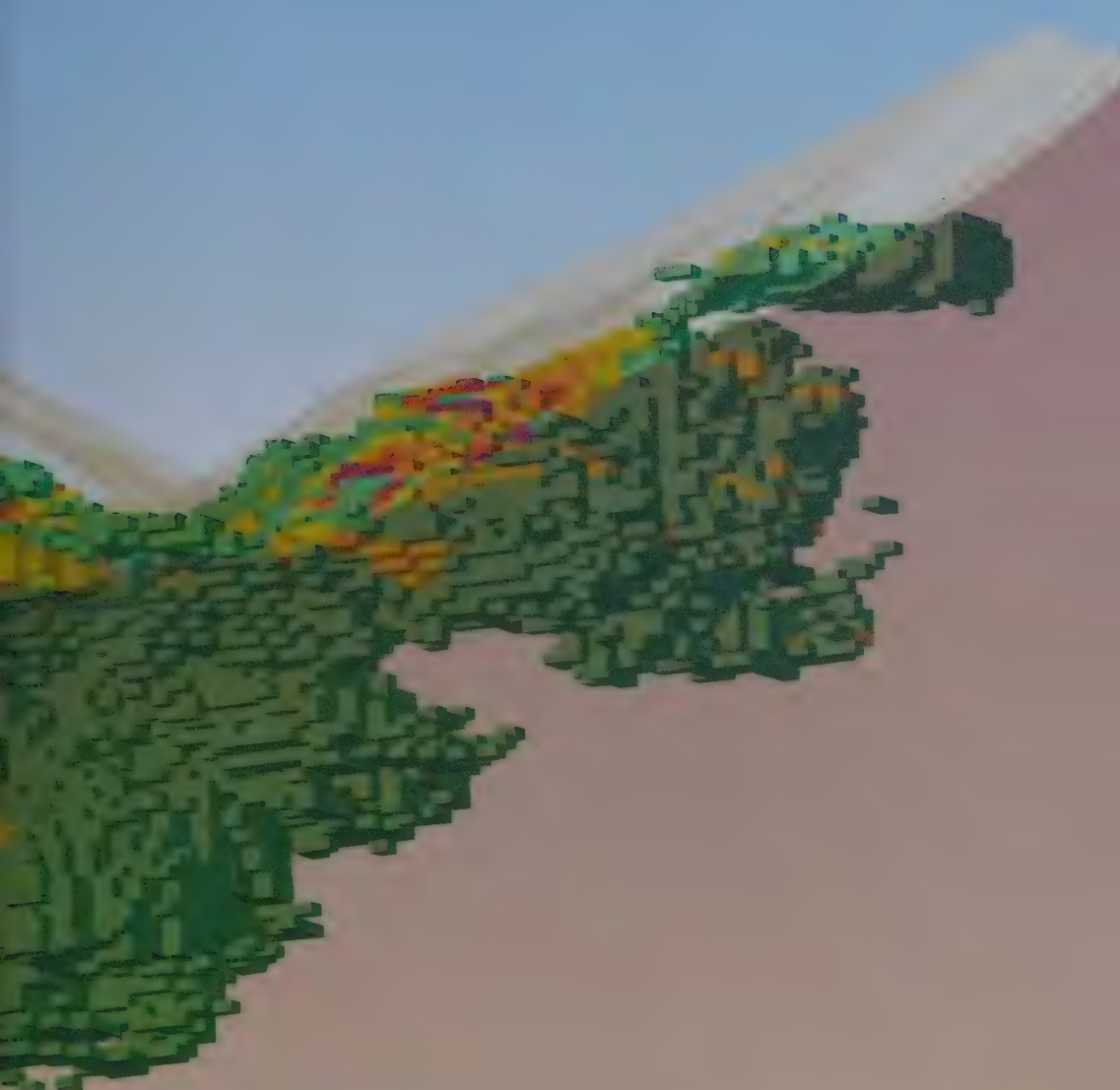
COPPER -GOLD DEPOSIT COMPARISON



Source: BMO Nesbitt Burns



AGUA RICA



AGUA RICA RESOURCE SUMMARY

Grade	Tonnage (Mtpa)	% Cu	% Fe	% Mo	% Pb	% Zn
0.2% Cu	1,714	0.71	0.43	0.032	0.17	3.0
0.1% Cu	730	0.94	0.60	0.037	0.21	3.0
0.05% Cu	167	1.38	0.99	0.036	0	1.1

Copper equivalent calculated at \$0.80 Copper, \$300 Gold and \$4.00 Molybdenum



AGUA RICA

AGUA RICA RESOURCE SUMMARY

Cut-off	Tonnes (mm)	% Cu Eq	% Cu	% Mo	g/t Au	g/t Ag
0.2% Cu	1,714	0.71	0.43	0.032	0.17	3.0
0.4% Cu	750	0.99	0.66	0.037	0.23	3.2
0.7% Cu	167	1.38	0.99	0.036	0.32	3.0

Copper equivalent calculated at \$0.80 Copper, \$300 Gold and \$4.00 Molybdenum



**STRONG CURRENT CASH
FLOW WITH LONG-TERM
GROWTH POTENTIAL**

**THE COMPANY CONTINUES TO EXPAND ITS
MANAGEMENT TEAM WITH THE 2003
APPOINTMENT OF PABLO MARCET, A SEASONED
TECHNICAL EXECUTIVE (FORMER ARGENTINA
COUNTRY MANAGER FOR BHP BILLITON) AS
OPERATIONS MANAGER-ARGENTINA, AND THE
2004 APPOINTMENT OF HORNG DIH LEE TO THE
POSITION OF CFO.**

Our focus for 2004 is to continue to refine the engineering required to bring Agua Rica into production in the most profitable manner and with the least risk. In addition, we will continue to pursue initiatives that enhance trading liquidity and expand our shareholder base. Northern Orion is continually evaluating potential acquisition targets and comparing these investments to the investment return expected from our current assets, notably Agua Rica. We will continue to look for acquisitions that enhance risk-adjusted shareholder value in the medium and long term.

Northern Orion would like to extend its appreciation to Terry O'Kane and Stephen Wilkinson, two of our directors who, because of other business and personal obligations, have decided not to stand for re-election. They have served over the last four transformational years, providing their engineering, geological, and business acumen to the Company for the benefit of all of our shareholders. We offer our sincere thanks for their time, effort and support over often very difficult periods. We are fortunate to have Michael Beckett and Robert Gayton standing for

election as welcome additions to our Board of Directors. Their international and regulatory experience will further complement and strengthen our company as we move into the next phase of growth and development.

We believe that the best is yet to come as Northern Orion endeavors to transform its world-class mineral deposit into world-class returns in a market where the demand for copper appears to be in a long-term growth phase. With strong free cash flow, lean management, and copper fundamentals that should continue to support strong prices, Northern Orion is well positioned to provide increasing shareholder value. We are confident that 2004 will see the continued growth of our Company.

David Cohen
President & CEO

Robert Cross
Chairman

NORTHERN ORION

NORTHERN ORION

- Substantial current cash flow from Alumbra
- World's lowest cost producer of copper (net of gold by-products) at Alumbra
- Substantial upside from the Agua Rica copper gold deposit - over 25 years of defined low cost resources

BOARD OF DIRECTORS

- | | |
|---------------------|--------------------|
| • Robert Cross | Executive Chairman |
| • David Cohen | President & CEO |
| • John K. Burns | Lead Director |
| • Terry O'Kane | Director |
| • Stephen Wilkinson | Director |

MANAGEMENT

- | | |
|-----------------|-----------------------------|
| • Robert Cross | Executive Chairman |
| • David Cohen | President & CEO |
| • Horng Dih Lee | VP Finance & CFO |
| • Pablo Marcet | President, Minera Agua Rica |





CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial position and operating results of the Company for the years ended December 31, 2003 and 2002 should be read in conjunction with the Consolidated Financial Statements and accompanying Notes, which have been prepared in accordance with generally accepted accounting principles in Canada. The Company also provides a reconciliation of these financial statements to accounting principles generally accepted in the United States, as described in Note 13 of the Consolidated Financial Statements. All monetary amounts are in United States dollars unless otherwise noted.

The Management's Discussion and Analysis ("MD&A") contains certain "Forward-Looking Statements" within the meaning of Section 21E of the United States Securities Exchange Act of 1934 as amended. All statements, other than statements of historical fact included herein, including without limitation, statements regarding potential mineralization and reserves and future plans of the Company are forward looking statements that involve various risks and uncertainties, including changes in future prices of gold and copper, variations in ore reserves, grade or recovery rates, accidents, labour disputes and other risks associated with mining, delays in obtaining governmental approvals or financing or in the completion of development or construction activities, and other factors discussed under "Risk Factors".

There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those acknowledged in such statements. The effective date of this MD&A is April 20, 2004.

In 2003, the Company adopted the United States dollar as its functional and reporting currency. The effect of this change is discussed under "Critical Accounting Policies".

Overview of Major Milestones

Following a successful corporate restructuring, which concluded in 2002, the Company completed two major acquisitions during 2003 and achieved a number of other milestones, enabling it to advance from a junior explorer to a mid-tier copper and gold company generating substantial positive cash flows and holding significant long-term reserves:

- In May 2003, the Company completed its acquisition from BHP Minerals International Exploration Inc. ("BHP Billiton") of BHP Billiton's 72% interest in the Agua Rica deposit in Argentina for \$12,600,000, giving the Company 100% ownership and control of a defined copper-gold-molybdenum deposit. Following the initial payment of \$3,600,000 on closing, the remaining \$9,000,000 is due in May 2005 and carries no interest.
 - In June 2003, the Company completed its acquisition of a 12.5% interest in the Bajo de la Alumbrera Mine in Argentina for \$88,600,000, plus acquisition costs of \$2,914,000. Alumbrera is one of the lowest cost producers of copper in the world, net of gold by-products, and generates strong current cash flow.
 - In June 2003, the Company completed a name change from Northern Orion Explorations Ltd., to Northern Orion Resources Inc. ("Northern Orion"), in conjunction with a share consolidation whereby the Company's shares were consolidated on a ten old for one new share basis.
 - The acquisition of Alumbrera was financed through the issuance of 81,040,308 special warrants at a unit price of Cdn.\$1.30 each, for net proceeds of \$70,576,000 and the issuance of two promissory notes totalling \$28,600,000 to BHP Billiton. Each special warrant unit consisted of one common share and one half warrant, each full warrant entitling the holder to purchase one common share of the Company at a price of Cdn.\$2.00 per share until May 29, 2008. The 40,520,155 warrants trade on the Toronto Stock Exchange under the symbol NNO.WT.
 - In November 2003, the Company received a cash distribution from Alumbrera of \$7,491,000, from which \$3,600,000 of the initial promissory notes was repaid to BHP Billiton.
 - In March 2004, the Company entered into a \$24.5 million term loan facility with Bayerische Hypo-und Vereinsbank ("HVB"). The proceeds from the term loan were used to pay the balance of the \$25 million promissory notes payable on Alumbrera to BHP Billiton.
 - On April 8, 2004, the Company's common shares were listed on the American Stock Exchange ("AMEX") under the symbol NTO.
-

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The following table sets forth selected consolidated financial information for the last three completed fiscal years (in thousands of U.S. dollars, except per share amounts):

	As at or for the year ended December 31		
	2003	2002	2001
Equity earnings of Alumbraera	10,562	-	-
Earnings (loss)	2,356	(1,269)	(882)
Earnings (loss) per share - basic	0.04	(0.08)	(0.08)
Earnings (loss) per share - diluted	0.04	(0.08)	(0.08)
Total assets	182,287	53,391	52,748
Long-term debt	33,583	-	-
Shareholders' equity	128,781	37,567	32,560

The following table sets forth selected results of operations for the last eight quarters ended December 31, 2003 (in thousands of U.S. dollars, except per share amounts):

	Quarter ended				Year ended
2003	Mar 31	Jun 30	Sep 30	Dec 31	Dec 31
Equity earnings of Alumbraera	-	288	2,793	7,481	10,562
Expenses	836	1,855	1,480	4,035	8,206
Earnings (loss)	(836)	(1,566)	1,312	3,446	2,356
Earnings (loss) per share - basic	(0.04)	(0.07)	0.02	0.03	0.04
Earnings (loss) per share - diluted	(0.04)	(0.07)	0.02	0.02	0.04

	Quarter ended				Year ended
2002	Mar 31	Jun 30	Sep 30	Dec 31	Dec 31
Equity earnings of Alumbraera	-	-	-	-	-
Expenses	298	266	441	264	1,269
Earnings (loss)	(298)	(266)	(441)	(264)	(1,269)
Earnings (loss) per share - basic and diluted	(0.03)	(0.02)	(0.03)	(0.01)	(0.08)

Year ended December 31, 2003 compared to the year ended December 31, 2002

On June 24, 2003, the Company completed the acquisition of a 12.5% indirect interest in the Alumbraera Mine in Argentina for \$88,600,000, plus acquisition costs of \$2,914,000. As a result of this transaction, the Company has realized equity in earnings from copper and gold production of \$10,562,000 for the period from acquisition to December 31, 2003. During this period, the Company's share of earnings before depletion, depreciation, amortization and tax provision was \$23,625,000 and its share of sales was 45,000 ounces of gold and 28,998,000 pounds of copper. Average realized copper price per pound was \$0.85, with total cash cost per pound of \$0.02, and average realized gold price per ounce was \$371. There is no comparative income for 2002.

On a consolidated basis, the Company recorded net earnings of \$2,356,000 or \$0.04 per share in 2003, compared to a net loss of \$1,269,000 or \$0.08 per share in 2002. Major factors contributing to the net earnings in 2003 include equity in earnings of Alumbraera of \$10,562,000 offset primarily by a non-cash charge for stock-based compensation of \$5,043,000 in 2003.

Professional and consulting costs comprise management fees paid to officers and directors of the Company, and fees paid to investor relations consulting firms. Included in these costs are fees paid to external consultants as part of the Company's review of potential mineral property acquisitions. These costs increased from \$558,000 in 2002 to \$1,743,000 in 2003 primarily as a result of the establishment of a new management team in late 2002 to commence the restructuring and transformation of the Company from junior exploration to mid-tier producer status. As a result of the successful transformation of the Company as well as various fund-raising activities, investor relations activities were expanded to improve the Company's visibility and liquidity in the marketplace and to increase its shareholder base.

Office and administration costs increased from \$355,000 in 2002 to \$812,000 in 2003 as a result of an increase in the level of corporate activities in 2003. Included in these fees are costs paid for head office administration, legal, accounting and administration of certain Argentinean subsidiaries, as well as travel costs incurred by directors and officers of the Company. Legal and accounting fees related to the special warrants financing and Alumbraera and Agua Rica acquisitions have been recorded as share issue costs or recorded as acquisition costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Stock-based compensation rose from \$20,000 in 2002 to \$5,043,000 in 2003, as a result of the granting of options to directors, officers, and employees of the Company. Stock-based compensation of \$593,000 has been capitalized to the Agua Rica property and is included in geological expense. The Company measures stock-based compensation using a fair value method, which involves an option-pricing model.

Severance and restructuring costs decreased from \$350,000 in 2002 to \$97,000 in 2003, as most of the restructuring of the Company with respect to settlement of debts to Miramar Mining Corporation (see Contractual Obligations) and management changes was completed in July 2002.

Interest revenue of \$438,000 was recorded in 2003, compared to \$13,000 in 2002. The increase is due to the higher cash balances held by the Company throughout 2003 as compared to 2002.

Interest and finance charges of \$513,000 relating to the Alumbraera financing have been expensed in 2003 with no comparative expense in 2002. Interest and finance charges of \$621,000 relating to the convertible debentures and long-term debt have been capitalized to the Agua Rica Project.

Three months ended December 31, 2003 compared to three months ended December 31, 2002

The Company recorded net earnings of \$3,445,000 or \$0.03 per share in the three months ended December 31, 2003 ("Q4 2003"), compared to a loss of \$264,000 or \$0.01 per share in the three months ended December 31, 2002 ("Q4 2002").

The Company recorded equity in earnings of Alumbraera of \$7,481,000 in Q4 2003. There is no comparative income for 2002. In Q4 2003, the Company's share of earnings before depletion, depreciation, amortization and tax provision was \$14,989,000 and its share of sales was 25,300 ounces of gold and 15,699,000 pounds of copper. Average realized copper price per pound during this period was \$0.91, with total cash cost per pound of minus \$0.049, and average realized gold price per ounce was \$379. There is no comparative income for 2002.

Total expenses increased from \$264,000 in Q4 2002 to \$4,035,000 in Q4 2003 primarily as a result of higher professional and consulting fees and stock-based compensation in Q4 2003. Professional and consulting increased from \$151,000 in Q4 2002 to \$600,000 in Q4 2003, due to increased management fees paid to senior officers of the Company and a higher level of investor relations activities compared to the prior year. Stock-based compensation of \$2,426,000 was expensed in Q4 2003 compared with \$20,000 in Q4 2002. The increase over Q4 2002 is a result of the decision in December 2003 to eliminate vesting periods for stock options.

Liquidity and Capital Resources

At December 31, 2003, Northern Orion had working capital of \$10,756,000 (December 31, 2002 - \$323,000) and cash and cash equivalents of \$11,387,000 (December 31, 2002 - \$342,000). During the year ended December 31, 2003, the increase in the cash balances was provided by the Company's operating and financing activities. Cash was used on investing activities.

Operating activities provided cash of \$5,777,000 during 2003. This was mainly derived from a cash distribution of \$7,491,000 from Alumbraera and offset primarily by professional and consulting expenses of \$1,743,000. Investing activities totalled \$67,137,000 in 2003 and consisted mainly of the acquisition of an indirect 12.5% interest in the Bajo de la Alumbraera copper-gold mine in Argentina and the acquisition of the remaining 72% interest of the Agua Rica project held by Rio Algom Limited. Financing activities generated cash of \$72,405,000 during 2003, the majority of which was through two equity financings, as described below.

At December 31, 2003, total assets increased to \$182,287,000 from \$53,391,000 at December 31, 2002, primarily due to the two acquisitions described below.

Alumbraera

On April 3, 2003, the Company entered into an agreement with Rio Algom Ltd. ("Rio Algom"), a subsidiary of BHP Billiton Ltd., ("BHP Billiton") to acquire BHP Billiton's 12.5% interest in Alumbraera.

The Alumbraera Mine is a large-scale open pit gold-copper mine located in northwest Argentina at an elevation of 1,600 metres above sea level. It is located 34 kilometres west of the Company's Agua Rica project. The Alumbraera Mine processes ore through conventional crushing, grinding, sulphide flotation and gravity gold circuits. Originally designed for throughput of 80,000 tonnes per day, the mine produced 600,000 ounces of gold and 162,000 tonnes of copper in 2000 and approximately 580,000 ounces of gold and 170,000 tonnes of copper in 2001. Expansion programs completed in 2001 increased throughput to 100,000 tonnes per day and increased annual production to approximately 760,000 ounces of gold and 200,000 tonnes of copper. Alumbraera is one of the lowest cost producers of copper in the world, net of gold credits.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purchase price for Alumbra was \$88,600,000, plus acquisition costs of \$2,914,000. \$28,600,000 of the purchase price was deferred by Rio Algom until May 30, 2005. The first \$25,000,000 of the deferred payment bears interest of 3-month LIBOR plus 2%. The balance of the deferred amount of \$3,600,000 carried an interest rate of 3-month LIBOR plus 5%. This balance was repaid in November 2003 when the Company received a cash distribution \$7,491,000 from the Alumbra Mine.

The remaining \$60,000,000 of the purchase price of Alumbra was financed through the issuance of 81,040,308 special warrants at a price of Cdn.\$1.30 each, for net proceeds of \$70,576,000. On July 25, 2003, a final prospectus qualified the distribution of 81,040,308 common shares and 40,520,155 common share purchase warrants on conversion of the special warrants financing. Each whole warrant entitles the holder thereof to acquire one common share in the capital of the Company at a price of Cdn.\$2.00 per share until May 29, 2008. Trading in the warrants commenced on August 7, 2003, on the Toronto Stock Exchange under the symbol NNO.WT.

In March 2004, the Company entered into a \$24,500,000 term loan facility with the Bayerische Hypo-und Vereinsbank ("HVB"). The proceeds from the term loan were used to pay the balance of the deferred portion of the purchase price payable to Rio Algom of \$25,000,000. The details of this loan are described under "Contractual Obligations".

Agua Rica

The Agua Rica project was held between the Company and BHP Billiton until the Company's acquisition of BHP Billiton's 72% interest on May 8, 2003, and was the Company's primary asset until the acquisition of Alumbra. Agua Rica is a world-class copper-gold-molybdenum porphyry deposit covering an area of about 13.5 square kilometres and is located in Catamarca Province, Argentina. The project is about 34 kilometres east of the Alumbra copper-gold mine.

On April 23, 2003, the Company entered into a definitive agreement with BHP Billiton to purchase BHP Billiton's approximate 72% interest in the Agua Rica project for consideration of \$12,600,000 of which BHP Billiton agreed to defer \$9,000,000 (the "Deferred Payment") without interest until June 30, 2005. The Deferred Payment is secured by a first charge on the approximately 72% interest acquired, a second charge on the approximately 28% interest already held by the Company and a mortgage of certain of the core claims comprising the Agua Rica project. The acquisition transaction closed on May 8, 2003.

At the time of acquisition, the Company entered into an agreement with Endeavour Mining Capital Corp. ("Endeavour Mining") whereby Endeavour Mining agreed to provide a convertible loan (the "Loan") of \$3,000,000 to fund a portion of the initial payment required to be made to BHP Billiton. The Loan was for a term of six months with an interest rate of 10% per annum. The Company provided a loan guarantee to Endeavour Mining as well as a pledge of its 28% holdings in the Agua Rica project. Pursuant to the commitment letter, the Company issued to Endeavour Mining 300,000 warrants of the Company exercisable at a price of Cdn.\$1.50 to acquire one common share for two years from the date of issue. Endeavour Mining received commitment and drawdown fees totalling \$150,000 for entering into these arrangements. The Company repaid the loan during 2003.

The Company has completed an independent review and National Instrument 43-101 evaluation of Agua Rica.

Other fund-raising activities and share transactions

During the year ended December 31, 2003, private placements of 3,495,000 units at Cdn.\$1.00 per unit and 505,000 units at Cdn.\$1.15 per unit for net proceeds of \$2,558,000 were completed in addition to the special warrants financing. Proceeds of these private placements were used for working capital and for the acquisition of the remaining 72% interest in the Agua Rica project from BHP Billiton. Each unit in the private placements was comprised of one common share and one share purchase warrant exercisable to acquire one common share, at a price of \$1.30 per share until March 18, 2005.

In 2003, 2,096,000 share purchase warrants and 275,000 stock options were exercised at weighted average prices of Cdn.\$1.63 and Cdn.\$1.36 respectively, giving gross proceeds of \$3,010,000. Subsequent to December 31, 2003, a further 802,500 share purchase warrants and 490,000 stock options were exercised for gross proceeds of approximately \$1,475,000.

In 2003, 148,148 common shares with a deemed value of Cdn.\$1.35 each for a total of \$144,000 were issued to two officers and directors of the Company for successful completion of the special warrant financing and the Alumbra acquisition. This is included in stock-based compensation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

At April 20, 2004, the Company had 107,712,048 common shares outstanding and the following share purchase warrants outstanding:

Number of Warrants	Exercise Price (Cdn.\$)	Expiry Date
2,000,000	1.30	August 2, 2004
2,181,500	1.30	March 18, 2005
100,000	1.50	April 23, 2005
200,000	1.50	May 8, 2005
40,520,155 ⁽¹⁾	2.00	May 29, 2008
1,000,000	4.74	March 1, 2007
46,001,655		

⁽¹⁾ These warrants are traded on the Toronto Stock Exchange under the symbol NNO.WT

At April 20, 2004, the Company also had 8,535,000 stock options outstanding. These options are exercisable at prices ranging from Cdn.\$1.30 to Cdn.\$3.15 per share and expiring mostly between 2008 and 2010.

San Jorge Copper-Gold Project

The San Jorge project, located northwest of Mendoza in Argentina, consisting of mining concessions and staked claims, was sold during the year for \$200,000 and 81,875 common shares at a deemed price of Cdn\$1.60 per share for total consideration of \$300,000. The project had been previously written off to a carrying value of \$nil in 2000.

Mantua Copper Project

The Mantua project, 50% owned by the Company, is a high-grade copper deposit amenable to open pit mining and solvent extraction/electro-winning recovery of copper. The property is located in the Pinar del Rio Province, Cuba. Geominera S.A., a Cuban company controlled by the government of Cuba, holds the remaining 50% interest in the project.

During 2002, the Company entered into an option agreement (the "Option Agreement") with Newport Exploration Ltd. ("Newport") whereby Newport may acquire an undivided 50% interest in the project. The acquisition will be by way of an option agreement over 100% of the issued and outstanding common shares in Minera Mantua Inc. ("Mantua"), a wholly owned subsidiary of the Company. Newport issued 400,000 common shares to enter into the Option Agreement, 200,000 of which are subject to a Net Proceeds and Royalty Agreement ("Proceeds Interest") with Miramar Mining Corporation ("Miramar") (Reference is made to Note 5(b)(iv)) of the Consolidated Financial Statements.) Newport was to assume and pay carrying costs relating to the Company's operating costs in Cuba up to a maximum of \$20,000 per month and to complete a program, to a maximum of \$750,000, of sampling suitable for metallurgical test work within 12 months from approval of the acquisition in order to complete a bankable feasibility study.

To date, the Company has received no operating costs from Newport with respect to the project. The Company has paid expenses relating to the project, which are included in mineral property interests, and an allowance for the receivable relating to the costs to be paid by Newport has been offset against the costs paid by the Company. The Company is currently reviewing the status of the Mantua project.

Outlook

The acquisition of the 12.5% stake in the Alumbreira mine should provide the Company with cash flow over the next 8 years. The acquisition of 100% of the Agua Rica project gives the Company ownership and control over a large advanced-stage copper-gold deposit that could have synergies with Alumbreira.

2004 will be the first full year in which the operations of Alumbreira will be integrated into the financial statements of Northern Orion. Alumbreira is undertaking a reserve and mine plan review with increased metal pricing (previous modeling was done at \$0.80/lb copper and \$295/oz gold) with a target completion in July 2004. As per the current life of mine plan, the Company expects production levels at Alumbreira to decrease slightly from 2003 to 2004 as a result of reduced grade, and then recover from 2005 onwards. The mine continues to run efficiently and anticipates the benefit of increased recovery once the flotation plant upgrade is completed in the second quarter of 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's earnings and cash flows are directly affected by market prices of copper and gold, and to a lesser extent, fluctuations in the U.S. dollar - Argentinean peso exchange rate (see Risk Factors). The sensitivity of the Company's earnings to copper and gold prices is summarized below:

Earnings sensitivity

(based on annualized 2003 production and December 31, 2003 metal prices)

	Change	Impact on After-tax Earning	Impact on Basic Earnings Per Share
Price of copper (per pound)	\$ 0.10	\$3,613,000	\$0.035 per share
Price of gold (per ounce)	\$20.00	\$1,120,000	\$0.01 per share

Note: Each sensitivity assumes that other factors are held constant. An Argentinean tax rate of 30% is used. Per share numbers are based on 106,419,548 common shares outstanding at December 31, 2003.

With respect to Agua Rica, the Company is investigating the construction of a 60,000 tonne-per-day mine and processing facility that would produce approximately 180,000 tonnes of copper annually, with associated gold and molybdenum by-products.

Through the balance of 2004 and beyond, the Company will be building upon its progress to date with a strategy to advance Agua Rica so as to achieve maximum monetary returns in the shortest time frame. With the expected cash flow from Alumbrera, the Company believes that in order to achieve its goals, it must look to growth both by advancing its existing projects and by further acquisitions. Northern Orion will continue to review and evaluate accretive acquisitions that could provide the Company with additional cash flow.

The Company's existing cash resources and working capital are sufficient to fund its planned corporate activities and work plans at Agua Rica, and maintain its obligations including interest payment on the loans and notes outstanding. Based on current commodity prices, market conditions, and planned production levels at Alumbrera, the Company expects to receive significant cash flows from Alumbrera for the next eight years that will more than provide the funds to repay all existing outstanding long-term debt as well as provide all or a large part of the equity contribution necessary for the Company to bring Agua Rica into production. However, given changing commodity prices and market conditions, the cash flows from Alumbrera may in fact prove not to be sufficient to to pay existing long-term debt in full, to advance any of the Company's projects, including Agua Rica, to the production stage, and to fund other acquisition projects. Over the long-term, the Company may still need to obtain additional funding for, or third party participation in, Agua Rica in order to bring it into production. If required, the Company expects to obtain additional financing through external financing, either through the public or private sales of equity or debt securities of the Company, or through the offering of joint venture or other third party participation in Agua Rica. Insofar as factors beyond the Company's control may adversely affect its access to funding or its ability to conclude financing arrangements, there can be no assurance that any additional funding will be available to the Company or, if available, that it will be on acceptable terms. If adequate funds are not available, the Company may be required to delay or reduce the scope of its activities to bring Agua Rica into full production.

Contractual Obligations

The following table summarizes the Company's contractual obligations as at December 31, 2003 (in thousands of U.S. dollars):

	Total	Less than 1 year	1-5 years	More than 5 years
Long-term debt ⁽¹⁾	\$ 34,000	\$ 34,000	\$ -	\$ -
Asset retirement obligations	97	-	-	97
Royalty and net proceeds interest ⁽²⁾	11,529	-	-	11,529
	\$ 45,626	\$ 34,000	\$ -	\$ 11,626

⁽¹⁾ In March 2004, the Company entered into a \$24,500,000 term loan facility with the Bayerische Hypo-und Vereinsbank ("HVB"). The proceeds from the term loan were used to pay the balance of the deferred portion of the purchase price payable to Rio Algom of \$25,000,000. The HVB term loan facility has a 4 ½ year term at U.S. dollar LIBOR plus 3.5% per annum for the first three years of the facility and U.S. dollar LIBOR plus 4.0% per annum thereafter. In connection with the facility, the Company issued 1,000,000

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

common share purchase warrants to HVB. The warrants have a three-year term and are exercisable at a price of Cdn\$4.74 to acquire one common share of the Company. Mandatory principal repayments are due as follows:

Date	Principal Repayment
December 31, 2004	\$ 2,500,000
June 30, 2005	2,500,000
December 31, 2005	3,000,000
June 30, 2006	5,000,000
December 31, 2006	5,000,000
June 30, 2007	1,000,000
December 31, 2007	2,750,000
June 30, 2008	2,750,000
	\$ 24,500,000

The Company may make prepayments in multiples of \$1,000,000. Interest payments are to be made on the last day of each interest period, which shall not exceed three months and will be payable in three month periods thereafter. The loan is secured by the security agreements and shares owned in the Company's direct and indirect interest in Alumbreira.

⁽²⁾ In December 1999, the Company reached an agreement to restructure and partially settle amounts owing to Miramar Mining Corporation ("Miramar"). Under the agreement, the Company also issued a royalty and net proceeds interest ("Proceeds Interest") of Cdn.\$17,987,000. The agreement was subsequently restructured and the maximum amount payable is Cdn.\$15,000,000. The agreement entitles Miramar to receive the economic equivalent of a 2.5% net smelter returns royalty on all production from the Company's mining properties held at the time of entering into the agreement, as amended, or 50% of the net proceeds of disposition of any interest in the Agua Rica or Mantua projects until the Proceeds Interest is paid. The Proceeds Interest balance payable at December 31, 2003, is \$11,529,000 (Cdn.\$14,948,000) and is deducted from mineral property interests.

Related Party Transactions

The Company's Canadian executive officers and employees were engaged under contract with those officers' personal services companies in 2003. The Company paid \$923,000 for management fees and expenses to private companies controlled by officers and directors of the Company in 2003, compared to \$387,000 in 2002. In 2003, the Company also paid \$147,000 in administrative fees to a private company with a director and officer in common with the Company, compared to \$108,000 in 2002.

In 2003, a director and officer of the Company was appointed a director of Newport Exploration Ltd. ("Newport"), which entered into an option agreement with the Company whereby Newport may acquire an undivided 50% in the Mantua copper project, as described above in Liquidity and Capital Resources. At December 31, 2003, the Company has a receivable of \$189,000 from Newport pursuant to the terms of the option agreement, for costs incurred to June 30, 2003. The Company has not accrued costs receivable from Newport for the three months ended December 31, 2003, as no funds have been received from Newport to date, and it is uncertain as to whether Newport will continue with the option agreement. An allowance has been set up relating to the receivable from Newport and the costs have been capitalized to the Mantua mineral property. The Company continues to fund the Mantua project.

Risk Factors

Risks associated with the mining industry

Northern Orion is engaged in the exploration, development and operation of mineral deposits. These activities involve significant risks which careful evaluation, experience and knowledge may not, in some cases, eliminate. The commercial viability of any mineral deposit depends on many factors, not all of which are within the control of management. Some of the factors that will affect the financial viability of a given mineral deposit include its size, grade and proximity to infrastructure. In addition, government regulation, taxes, royalties, land tenure, land use, environmental protection and reclamation and closure obligations could have a profound impact on the economic viability of a mineral deposit.

Northern Orion is not able to determine the impact of potential changes in environmental laws and regulations on its financial position due to the uncertainty surrounding the form such changes may take. As mining regulators continue to update and clarify their requirements for closure plans and environmental protection laws and administrative policies are changed, additional reclamation obligations and further security for mine reclamation costs may be required. It is not expected that such changes will have a material effect on the operations of Northern Orion.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Mining activities also involve risks such as unexpected or unusual geological operating conditions, floods, fires, earthquakes, other natural or environmental occurrences and political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks as a result of high premiums or other reasons. The Company does not maintain insurance against political or environmental risks. Should any uninsured liabilities arise, they could result in increased costs, reductions in profitability, and a decline in the value of the Company's securities.

Risks associated with financial markets

As the Company currently uses the U.S. dollar as its functional and reporting currency, fluctuations in exchange rates between the U.S. dollar and other currencies may affect the results of operations and financial position of the Company.

Operations at the Alumbra Mine are predominately conducted in US dollars as the prices of copper and other metals are referenced in U.S. dollars. However, local costs and expenses are primarily paid in Argentinean pesos. The currency in Argentina had previously been fixed to the US dollar but was devalued in 2002. Deterioration of the US dollar against the Argentinean peso will have an adverse effect on the earnings of Alumbra.

Cuba has fixed its currency to the US dollar and the majority of the transactions in Cuba are in US dollars. The Company's Cuban operations do not have a material effect on the Company's financial statements.

The Company has historically raised equity financings in Canadian dollars, and holds a significant amount of its cash resources in Canadian dollars. At December 31, 2003, approximately 61% of the Company's cash and cash equivalent balance was held in Canadian dollars. Fluctuations in the exchange rate between the Canadian and U.S. dollar may have a favourable or unfavourable impact on the Company's results of operations and financial condition.

Risks associated with the market for metals and minerals

Metals prices have a direct impact on Alumbra's earnings and the commercial viability of Northern Orion's other mineral properties and are subject to volatile price fluctuations. Price volatility result from a variety of factors, including global consumption and demand for metals, international economic and political trends, fluctuations in the U.S. dollar and other currencies, interest rates, and inflation. Northern Orion's earnings are particularly sensitive to copper price fluctuations, and to a lesser extent, gold prices. While prices for copper and gold have increased significantly since the start of 2003, there is no assurance that this trend will continue or that current prices will sustain.

Risks associated with foreign operations

Northern Orion's investments in foreign countries such as Argentina and Cuba carry certain risks associated with different political and economic environments. Northern Orion undertakes investments in various countries around the world only when it is satisfied that the risks and uncertainties of operating in different cultural, economic and political environments are manageable and reasonable relative to the expected benefits.

Critical Accounting Policies

The preparation of financial statements requires management to establish accounting policies, estimates and assumptions that affect the timing and reported amounts of assets, liabilities, revenues and expenses. These estimates are based upon historical experience and on various other assumptions that management believes to be reasonable under the circumstances, and require judgement on matters which are inherently uncertain. A summary of the Company's significant accounting policies is set forth in Note 2 of the consolidated financial statements for the year ended December 31, 2003.

In 2003, the Company determined that, due to the major acquisitions that occurred during the year, the functional currency of the Company had changed to the U.S. dollar and that would have a significant impact on the Company's Consolidated Financial Statements. The following is a discussion of the change in reporting and functional currency, as well as the Company's critical accounting policies which include valuation of mineral property interests, plant and equipment, and equity investments.

Change in reporting and functional currency

Effective July 1, 2003, the Company changed its functional currency from the Canadian ("Cdn") dollar to the United States ("U.S.") dollar as a result of the Company's acquisition and interest in the Alumbra Mine, which operates in an environment where the major currency is the U.S. dollar. Additionally, the Company financed a major portion of the acquisition through U.S. denominated debt. The Company also adopted the U.S. dollar as its reporting currency. Prior to this change, the foreign currency balances and the financial statements of integrated foreign operations were translated into Canadian dollars using the temporal method. Under this method, monetary items are translated at the rate of exchange in effect at the year-end. Non-monetary items are translated at historical exchange rates. Revenues and expenses are translated at the average exchange rates prevailing during the year, except for depreciation and amortization, which are translated at the same exchange rates as the assets to which they relate. Exchange gains and losses are included in income in the current year.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Balances denominated in currencies other than the U.S. dollar and the financial statements of integrated foreign operations are translated into U.S. dollars using the temporal method described above. The financial statements as at and for the six-month period ended June 30, 2003, were translated into U.S. dollars at U.S.\$1.00 = Cdn\$1.4015, being the exchange rate for the period for the income statements and at U.S.\$1.00 = Cdn\$1.3475, being the rate at June 30, 2003, for assets and liabilities. The translated amount for monetary and non-monetary items at July 1, 2003, became the historical basis for subsequent periods.

The comparative numbers for the years ended December 31, 2002 and 2001, including supplementary information, were translated using the current method of translation. Under this method, the income statement and the cash flow statement items were translated into the reporting currency using the rates in effect at the date of the transactions, effectively the average exchange rate for the year and assets and liabilities were translated at year-end rates. All resulting exchange differences are reported as cumulative translation adjustments as a separate component of shareholders' equity.

Mineral property interests

Mineral resource properties and related exploration and development costs are recorded at cost, including capitalized interest during exploration and development, on a property-by-property basis. These costs will be amortized over the estimated useful life of the properties on a unit-of-production basis following the commencement of commercial production, written-down if estimated future cash flows indicate the carrying value will not be recoverable, or written-off if the properties are sold, allowed to lapse or abandoned. A provision for site restoration costs is provided as necessary by a charge to earnings over the estimated remaining life of the resource properties. Costs related to ongoing site restoration programs are expensed when incurred.

Management periodically reviews the underlying value of mineral properties and records a provision to reduce the costs incurred to net recoverable amount as appropriate. If impairment is determined to exist, the mineral property will be written down to its net recoverable value. During 2002 and 2003, there was no indication of impairment.

The recoverability of the amounts capitalized for mineral property interests is dependent upon the delineation of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in various projects have been based on current conditions. However, it is reasonably possible that changes could occur in the near term that could adversely affect management's estimates and may result in future write-downs of capitalized mineral property interests carrying values.

Although the Company has taken steps to verify the title to mineral property interests in which it holds an interest, in accordance with industry standards for these properties, these procedures do not guarantee the Company's title to all claims. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Plant and equipment

Plant and equipment are recorded at cost including capitalized interest incurred during the construction phase. Net operating costs, interest costs and financing costs incurred in the period preceding commercial production are capitalized. Mine plant and equipment are depreciated using the straight-line and declining balance methods, as appropriate to the assets, over their estimated useful lives, not to exceed the estimated proven and probable ore reserves commencing with the attainment of commercial production. Mining equipment and vehicles are depreciated over their estimated useful lives of five to fifteen years. The Company has ceased depreciation of mining equipment and vehicles pending re-commencement of mining operations. Maintenance costs incurred during this period are expensed against operations.

The Company periodically compares the carrying value of capital assets to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment. Impairment in value would be indicated if the assets' carrying value exceeds the estimated recoverable amount. During the periods covered by these consolidated financial statements there was no indication of impairment.

Equity investments and accounting for Alumbra

The Company's investment in Bajo de la Alumbra has been accounted for using the equity method whereby the investment has been initially recorded at cost and the carrying value adjusted thereafter to include the Company's share of earnings since the acquisition date. Cash distributions received are credited to the investment account.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Northern Orion Resources Inc.

We have audited the consolidated balance sheets of Northern Orion Resources Inc. as at December 31, 2003 and 2002 and the consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three year period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Vancouver, British Columbia
April 13, 2004

Comments by Auditors for U.S. Readers on Canada-U.S. Reporting Conflict

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) where there are changes in accounting principles that have a material effect on the comparability of the Company's financial statements, such as the change described in Note 3 to the consolidated financial statements. Our report to the shareholders dated April 13, 2004 is expressed in accordance with Canadian reporting standards which do not permit a reference to such considerations in the auditors' report when the change is properly accounted for and adequately disclosed in the financial statements.



Chartered Accountants
Vancouver, British Columbia
April 13, 2004

MANAGEMENT'S STATEMENT ON FINANCIAL REPORTING

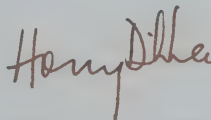
The information and representations in this Report have been prepared by management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. The financial information presented throughout this Report is consistent with the data presented in the consolidated financial statements.

Systems of internal accounting control are maintained in order to assure on a reasonable basis the reliability of this financial information. These systems include formal policies and procedures, the careful selection and training of qualified personnel and an organization providing for appropriate delegation of authority and segregation of responsibilities. Our independent auditors, whose report on their audit examinations of the consolidated financial statements appears above, also review our systems of internal accounting control in accordance with Canadian generally accepted auditing standards for the purpose of expressing their opinion on the consolidated financial statements.

Financial management personnel and our independent auditors meet with the Audit Committee of the Board of Directors at least four times a year to report on accounting, auditing, internal accounting control and financial reporting matters. This Report has been reviewed and approved by the Board of Directors.



President and Chief Executive Officer



Vice-President Finance and Chief Financial Officer

April 13, 2004

CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of United States dollars, except per share amounts)

	December 31, 2003	December 31, 2002
ASSETS		
Cash and cash equivalents	\$ 11,387	\$ 342
Marketable securities (Note 4)	150	90
Prepaid expenses and other receivables	160	170
TOTAL CURRENT ASSETS	11,697	602
 PLANT AND EQUIPMENT (Note 5)	 1,633	 1,386
MINERAL PROPERTY INTERESTS (Note 5)	74,372	51,403
EQUITY INVESTMENT IN MINERA ALUMBRERA LTD. (Note 6)	94,585	—
TOTAL ASSETS	\$ 182,287	\$ 53,391
LIABILITIES		
Accounts payable and accrued liabilities	\$ 941	\$ 279
TOTAL CURRENT LIABILITIES	941	279
 LONG-TERM DEBT (Note 7)	 33,583	 —
ASSET RETIREMENT OBLIGATION	97	25
FUTURE INCOME TAXES (Note 11)	18,885	15,520
TOTAL LIABILITIES	53,506	15,824
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	183,993	113,131
Warrants (Note 8(d))	5,588	—
Contributed surplus (Note 8(e))	5,848	72
Deficit	(61,063)	(63,419)
Cumulative translation adjustment	(5,585)	(12,217)
TOTAL SHAREHOLDERS' EQUITY	128,781	37,567
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 182,287	\$ 53,391

SUBSEQUENT EVENTS (Note 14)

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors



David Cohen



Stephen Wilkinson

CONSOLIDATED STATEMENTS OF OPERATIONS & DEFICIT

(Expressed in thousands of United States dollars, except per share amounts)

	For the years ended December 31,		
	2003	2002	2001
EQUITY EARNINGS OF MINERA ALUMBRERA LTD. (Note 6)	\$ 10,562	\$ --	\$ --
EXPENSES			
Foreign exchange (gains) losses	436	(1)	88
Office and administration	812	355	380
Professional and consulting	1,743	558	464
Severance and restructuring costs	97	350	131
Stock-based compensation	5,043	20	52
EARNINGS (LOSS) BEFORE THE FOLLOWING	2,431	(1,282)	(1,115)
INTEREST AND OTHER INCOME	438	13	233
INTEREST EXPENSE	(\$13)	--	--
EARNINGS (LOSS) FOR THE YEAR	2,356	(1,269)	(882)
DEFICIT, BEGINNING OF YEAR	(63,419)	(62,150)	(61,268)
DEFICIT, END OF YEAR	\$ (61,063)	(63,419)	(62,150)
Earnings (loss) per share - basic	\$ 0.04	\$ (0.08)	\$ (0.08)
Earnings (loss) per share - fully diluted	\$ 0.04	\$ (0.08)	\$ (0.08)
Weighted average number of shares outstanding - basic	57,013,774	15,026,303	10,583,528
Weighted average number of shares outstanding - fully diluted	60,073,541	15,026,303	10,583,528

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Expressed in thousands of United States dollars, except per share amounts)

	Common Shares Without Par Value		Warrants	Contributed Surplus	Cumulative Translation Adjustment	Deficit	Total Shareholders' Equity
	Shares	Amount					
Balance, December 31, 2000	8,943,060	\$ 92,310	\$ --	\$ --	\$ --	\$ (61,268)	\$ 31,042
Private placement, less share issue costs	1,000,000	961	--	--	--	--	961
Conversion of convertible debenture	1,443,962	13,839	--	--	--	--	13,839
Stock-based compensation	--	--	--	52	--	--	52
Cumulative translation adjustment	--	--	--	--	(12,452)	--	(12,452)
Loss for the year	--	--	--	--	--	(882)	(882)
Balance, December 31, 2001	11,387,022	107,110	--	52	(12,452)	(62,150)	32,560
Private placements, less share issue costs	2,833,333	1,526	--	--	--	--	1,526
Costs on issue of common shares	30,000	19	--	--	--	--	19
Conversion of promissory notes	4,609,737	4,476	--	--	--	--	4,476
Stock-based compensation	--	--	--	20	--	--	20
Cumulative translation adjustment	--	--	--	--	235	--	235
Loss for the year	--	--	--	--	--	(1,269)	(1,269)
Balance, December 31, 2002	18,860,092	113,131	--	72	(12,217)	(63,419)	37,567
Private placement, less share issue costs	4,000,000	2,558	--	--	--	--	2,558
Special warrants financing, less share issue costs (Note 8(c))	81,040,308	65,150	5,426	--	--	--	70,576
Warrants exercised	2,096,000	2,586	--	--	--	--	2,586
Stock options exercised	275,000	424	--	(139)	--	--	285
Agua Rica financing - warrants and debt extinguishment	--	--	162	423	--	--	585
Stock-based compensation	148,148	144	--	5,492	--	--	5,636
Cumulative translation adjustment	--	--	--	--	6,632	--	6,632
Earnings for the year	--	--	--	--	--	2,356	2,356
Balance, December 31, 2003	106,419,548	\$ 183,993	\$ 5,588	\$ 5,848	\$ (5,585)	\$ (61,063)	\$ 128,781

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of United States dollars)

	For the years ended December 31,		
	2003	2002	2001
OPERATING ACTIVITIES			
Earnings (loss) for the year	\$ 2,356	\$ (1,269)	\$ (882)
Items not involving cash			
Gain on sale of shares	(31)	--	--
Equity earnings of Minera Alumbrera Ltd., net of cash distribution	(3,071)	--	--
Stock-based compensation	5,043	20	52
Shares received for mineral property interests	(100)	--	--
Increase in reclamation obligation	72	--	--
Depreciation	1	3	20
Unrealized foreign exchange	(80)	--	--
Changes in non-cash operating working capital			
Prepaid expenses and other receivables	10	(147)	(30)
Accounts payable and accrued liabilities	662	36	(201)
Future income taxes payable	915	--	--
	5,777	(1,357)	(1,041)
INVESTING ACTIVITIES			
Equity investment in Minera Alumbrera Ltd.	(62,914)	--	--
Acquisition of Agua Rica interest	(3,600)	--	--
Mineral property costs incurred	(684)	(102)	(3)
Proceeds on sale of marketable securities	71	--	--
Plant and equipment	(10)	--	--
	(67,137)	(102)	(3)
FINANCING ACTIVITIES			
Promissory notes repaid	(6,600)	--	--
Convertible debentures, promissory notes and other	3,000	--	326
Warrants issued for cash, net of issue costs	5,426	--	--
Common shares issued for cash, net of issue costs	70,579	1,558	9552
	72,405	1,558	1,278
Increase in cash and cash equivalents	11,045	99	234
Cash and cash equivalents, beginning of year	342	243	9
Cash and cash equivalents, end of year	\$ 11,387	\$ 342	\$ 243
Cash and cash equivalents is comprised of:			
Cash and in bank	\$ 101	\$ 7	\$ 243
Short-term money market instruments	10,286	335	--
	\$ 11,387	\$ 342	\$ 243

SUPPLEMENTARY CASH FLOW INFORMATION (Note 9)

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2003, 2002 and 2001

(Expressed in thousands of United States dollars, except per share amounts)

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Northern Orion Resources Inc. ("the Company") is incorporated under the Company Act (British Columbia) and has interests in mineral properties in Argentina and Cuba. The Company is engaged in mining and related activities including the exploration and development of mineral property interests in Argentina and Cuba.

On June 24, 2003, the Company acquired a 12.5% interest in the Bajo de la Alumbra Mine in Argentina (Note 6). On May 8, 2003, the Company acquired the remaining 72% interest in the Agua Rica deposit to bring its ownership interest in Agua Rica to 100% (Note 5(b)).

The recoverability of amounts capitalized for mineral property interests in the consolidated balance sheets is dependent upon the existence of economically recoverable reserves, the ability of the Company to arrange appropriate financing to complete the development of the properties, the receipt of necessary permitting and upon future profitable production, or alternatively, upon the Company's ability to dispose of its mineral property interests.

On June 16, 2003, the name of the Company was changed to Northern Orion Resources Inc. The Company's shares were consolidated on a ten (10) old for one (1) new share basis, leaving 22,860,092 post-consolidated shares issued and outstanding. The Company's authorized share capital was increased to 700,000,000 common shares subsequent to the consolidation. References to common shares and per share amounts have been restated to reflect the share consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. They include the accounts of the Company and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated. Principal subsidiaries and investments at December 31, 2003, include: Minera Agua Rica LLC, which holds the Agua Rica property in Argentina; Minera Mantua Inc., which holds the Mantua property in Cuba and an indirect 12.5% equity interest in Minera Alumbra Ltd. ("Alumbra"), which holds the Bajo de la Alumbra Mine in Argentina. Significant differences from United States generally accepted accounting principles are disclosed in note 13.

(b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Significant areas where management's judgement is required include the determination of impairment of mineral property interests and plant and equipment, reclamation obligations and rates for depreciation. In assessing the underlying values of mineral property interests, management considers both internally prepared life-of-mine studies and the estimated cash flows under actual or proposed arrangements with other parties for development and operation of the mineral property interest. These arrangements may, and likely will, change in the future in response to changing business conditions, and these changes may impact the Company's estimates of cash flows. Actual results could differ from those estimates.

(c) Cash and cash equivalents

Cash and cash equivalents include cash and those short-term money market instruments that are readily convertible to cash with an original term of less than 90 days when acquired.

(d) Marketable securities

Marketable securities consist of investments in publicly traded equity securities and are recorded at the lower of cost and market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2003, 2002 and 2001

(Expressed in thousands of United States dollars, except per share amounts)

(e) Plant and equipment

Plant and equipment are recorded at cost including capitalized interest incurred during the construction phase. Net operating costs, interest costs and financing costs incurred in the period preceding commercial production are capitalized. Mine plant and equipment are depreciated using the straight-line and declining balance methods, as appropriate to the assets, over their estimated useful lives, not to exceed the estimated proven and probable ore reserves commencing with the attainment of commercial production. Mining equipment and vehicles are depreciated over their estimated useful lives of five to fifteen years. The Company has ceased depreciation of mining equipment and vehicles pending re-commencement of mining operations. Maintenance costs incurred during this period are expensed against operations. Office furniture and computer equipment are depreciated using the straight-line method over periods from three to ten years.

On a quarterly basis, the Company compares the carrying value of capital assets to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment. Impairment in value would be indicated if the asset's carrying value exceeds the estimated recoverable amount. During the periods covered by these consolidated financial statements there was no indication of impairment.

(f) Mineral property interests

Mineral resource properties and related exploration and development costs are recorded at cost, including capitalized interest during exploration and development, on a property-by-property basis. These costs will be amortized over the estimated useful life of the properties on a unit-of-production basis following the commencement of commercial production, written-down if estimated future cash flows indicate the carrying value will not be recoverable, or written-off if the properties are sold, allowed to lapse or abandoned. A provision for site restoration costs is provided as necessary by a charge to earnings over the estimated remaining life of the resource properties. Costs related to ongoing site restoration programs are expensed when incurred. Management periodically reviews the underlying value of mineral properties and records a provision to reduce the costs incurred to net recoverable amounts as appropriate. If impairment is determined to exist, the mineral property will be written down to its net recoverable value. The recoverability of the amounts capitalized for mineral property interests is dependent upon the delineation of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in various projects have been based on current conditions. However, it is reasonably possible that changes could occur in the near term that could adversely affect management's estimates and may result in future write-downs of capitalized mineral property interests carrying values.

Although the Company has taken steps to verify the title to mineral property interests in which it holds an interest, in accordance with industry standards for these properties, these procedures do not guarantee the Company's title to all claims. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Because options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as mineral property costs or recoveries when the payments are made or received.

(g) Equity and other investments

The Company's investment in Bajo de la Alumbrera has been accounted for using the equity method whereby the investment has been initially recorded at cost and the carrying value adjusted thereafter to include the Company's share of earnings since the acquisition date. Cash distributions received are credited to the investment account.

(h) Change in reporting and functional currency

Effective July 1, 2003, the Company changed its functional currency from the Canadian ("Cdn") dollar to the United States ("U.S.") dollar. The change was necessary due to the Company's acquisition and interest in the Alumbrera Mine, which operates in an environment where the major currency is the U.S. dollar. Additionally, the Company financed a major portion of the acquisition through U.S. denominated debt. The Company also adopted the U.S. dollar as its reporting currency. Prior to this change, the foreign currency balances and the financial statements of integrated foreign operations were translated into

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2003, 2002 and 2001

(Expressed in thousands of United States dollars, except per share amounts)

Canadian dollars using the temporal method. Under this method, monetary items are translated at the rate of exchange in effect at the year-end. Non-monetary items are translated at historical exchange rates. Revenue and expense items are translated at the average exchange rates prevailing during the year, except for depreciation and amortization, which are translated at the same exchange rates as the assets to which they relate. Exchange gains and losses are included in income in the current year.

Balances denominated in currencies other than the U.S. dollar and the financial statements of integrated foreign operations are translated into U.S. dollars using the temporal method described above. The financial statements as at and for the six-month period ended June 30, 2003, were translated into U.S. dollars at U.S.\$1.00 = Cdn\$1.4015, being the exchange rate for the period for the income statements and at U.S.\$1.00 = Cdn\$1.3475, being the rate at June 30, 2003, for assets and liabilities. The translated amount for monetary and non-monetary items at July 1, 2003, became the historical basis for subsequent periods.

The comparative numbers for the years ended December 31, 2002 and 2001, including supplementary information, were translated using the current method of translation. Under this method, the income statement and the cash flow statement items were translated into the reporting currency using the rates in effect at the date of the transactions, effectively the average exchange rate for the year, of U.S. \$1.00 = Cdn (2002:\$1.5704; 2001:\$1.5484). Assets and liabilities were translated at year-end rates of U.S. \$1.00 = Cdn (2002:\$1.5776; 2001:\$1.5928). All resulting exchange differences are reported as cumulative translation adjustments as a separate component of shareholders' equity.

(i) Income taxes

The Company uses the asset and liability method of accounting for future income taxes whereby future income tax assets and liabilities are determined based on differences between the carrying amounts and tax bases of assets and liabilities and loss carryforwards, and measured using the tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in tax rates on future income tax assets and liabilities is included in the results of operations in the period in which the change is substantively enacted. The amount of future tax assets recognized is limited to the amount that is considered to be more likely than not to be realized.

(j) Earnings or loss per common share

Basic earnings or loss per share are based on the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method. For all years presented, earnings or loss available to common shareholders equals the reported earnings or loss. With the treasury stock method, common equivalent shares consist of the incremental common shares to be issued upon the assumed proceeds to be received by the exercise of stock options and warrants, but are excluded from the computation if their effect is anti-dilutive.

(k) Financial instruments

The Company's financial instruments comprise cash and cash equivalents, marketable securities, prepaid expenses and other receivables, accounts payable and accrued liabilities, royalty and proceeds interest payable and long-term debt. The fair value of the financial instruments approximates their carrying values due primarily to the immediate or short-term maturity of the financial instruments.

Foreign exchange risk is the risk arising from changes in foreign currency fluctuations. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency rates. The Company receives funds from the Alubrera operations in U.S. dollars. Alubrera employs metal and interest rate option contracts to manage exposure to fluctuations in metal prices. Hedging gains or losses are recognized in sales when the hedged production is sold.

(l) Stock based compensation

The Company has a share option plan as described in note 8(d). Effective January 1, 2002, the Company used the fair value method for accounting for all stock-based payments to non-employees and employee awards that are the direct awards of stock, call for the settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments. Under the fair value method, employee compensation expense attributed to direct awards of stock is measured at the fair value of the award at the grant date and is recognized over the vesting period of the award using an option-pricing model. If and when the stock options are ultimately exercised, the applicable amounts of additional paid-in capital and contributed surplus are credited to share capital. For employee stock-based payments that call for the settlement of equity instruments, compensation cost is measured at the fair value of the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2003, 2002 and 2001

(Expressed in thousands of United States dollars, except per share amounts)

award and is recognized over the vesting period. For all other employee awards, the Company continues to follow the settlement method. Under this method, no compensation cost is recognized when the awards are issued to employees. No stock options exercised during the year ended December 31, 2003, were settled as stock appreciation rights.

3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2002, the Company adopted the new Recommendations of the Canadian Institute of Chartered Accountants with respect to the accounting for stock-based compensation and other stock-based payments. The new recommendations are applied prospectively to all stock-based payments, and require recognition of stock-based payments to non-employees and to employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after January 1, 2002, except grants outstanding at January 1, 2002, that call for settlement in cash or other assets or stock appreciation rights that call for settlement in equity instruments. For such grants, the new Recommendations are applied retroactively, without restatement but with the cumulative impact charged against equity. As the Company's stock option plan includes stock appreciation rights, the Company has recorded an increase to deficit of \$52 and an increase to contributed surplus of \$52 as at January 1, 2002, on retroactive application of this policy. For comparative purposes the \$52 is recorded as stock-based compensation in the year ended December 31, 2001.

4. MARKETABLE SECURITIES

	December 31, 2003		December 31, 2002	
	Carrying Value	Market Value	Carrying Value	Market Value
International Barytex Resources Ltd.	\$ 10	\$ 46	\$ 57	\$ 36
Newport Exploration Ltd.	40	48	33	41
Lumina Copper Ltd.	100	249	—	—
	\$ 150	\$ 343	\$ 90	\$ 98

At December 31, 2003, the Company holds 41,000 (December 31, 2002 - 300,000) common shares of International Barytex Resources Ltd. ("Barytex"), 200,000 (December 31, 2002 - 200,000) common shares of Newport Exploration Ltd. ("Newport") and 81,875 (December 31 2002 - nil) common shares of Lumina Copper Ltd. ("Lumina").

5. PLANT AND EQUIPMENT AND MINERAL PROPERTY INTERESTS

(a) Plant and equipment

	December 31, 2003		
	Cost	Accumulated Depreciation	Net Book Value
Mine plant and equipment	\$7,380	\$5,759	\$1,621
Office and other equipment	85	73	12
	\$7,465	\$5,832	\$1,633

	December 31, 2002		
	Cost	Accumulated Depreciation	Net Book Value
Mine plant and equipment	\$6,304	\$4,919	\$1,385
Office and other equipment	77	76	1
	\$6,381	\$4,995	\$1,386

Mine plant and equipment were placed on care and maintenance in March 2000 with the completion of the gold phase at Mantua. Depreciation of the plant and equipment has been discontinued pending commencement of the copper phase at Mantua.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2003; 2002 and 2001

(Expressed in thousands of United States dollars, except per share amounts)

(b) Mineral property interests

	December 31, 2003	December 31, 2002
Minera Mantua Project (Cuba)		
Balance, beginning of year	\$15,714	\$15,520
Incurred during the year		
Site maintenance	227	44
Cumulative translation adjustment	2,683	150
Balance, end of year	18,624	15,714
Agua Rica Project (Argentina)		
Balance, beginning of year	45,164	44,847
Incurred during the year (recovered)		
Acquisition costs	12,600	—
Engineering studies	54	—
Environmental and community	83	—
Geological	660	—
Legal and title	36	—
Property taxes	84	—
Site activities	224	—
Property and finance costs	621	(136)
Cumulative translation adjustment	7,751	453
Balance, end of year	67,277	45,164
	85,901	60,878
Royalty and net proceeds interest (iv)	(11,529)	(9,475)
Mineral property interests	\$74,372	\$51,403

(i) Agua Rica, Argentina

The 100% owned Agua Rica project is located in Catamarca Province, Argentina. The property is comprised of mining claims and exploration licences. Work is focused upon a major porphyry copper-gold-silver-molybdenum deposit that was previously being explored between the Company (28%) and BHP Minerals International Exploration Inc. ("BHP Billiton") (72%). On April 23, 2003, the Company entered into an agreement to acquire the remaining 72% interest from BHP Billiton for consideration of \$12,600 of which BHP Billiton deferred \$9,000 (the "Deferred Payment") without interest until June 30, 2005. The balance of \$3,600 was paid on closing, which was May 8, 2003. The Deferred Payment is secured by a first charge on the approximately 72% interest acquired and a second charge on the 28% interest of the limited liability interests already held by the Company and a mortgage on certain of the core claims comprising the Agua Rica project.

(ii) San Jorge, Argentina

The San Jorge project, located northwest of Mendoza in Argentina, consisting of mining concessions and staked claims, was sold during the year for \$200 and 81,875 common shares at a deemed price of Cdn\$1.60 per share for total consideration of \$300. In the year ended December 31, 2000, the project had been written off to a carrying value of \$nil.

(iii) Mantua, Cuba

The Company operated a gold processing facility at Mantua, Cuba from April 1998 until September 1999 when operations ceased. The Mantua project, 50% owned by the Company, is a copper deposit and is amenable to open pit mining and solvent extraction/electro winning recovery of copper. The property is located in the Pinar del Rio Province, Cuba. Geominera, S.A., a Cuban company controlled by the government of Cuba, holds the remaining 50% interest in the Mantua project. At December 31, 2003, subordinated debt of approximately \$28,000 is owing to the Company by Geominera for expenditures previously paid for by the Company on Geominera's behalf. The net value assigned to this debt is included in mineral property interests.

During the year ended December 31, 2002, the Company entered into an option agreement (the "Option Agreement") with Newport Exploration Ltd. ("Newport") whereby Newport may acquire an undivided 50% interest in the project. The acquisition will be by way of an option agreement over 100% of the issued and outstanding common shares in Minera Mantua Inc. ("Mantua"), a wholly owned subsidiary of the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2003, 2002 and 2001

(Expressed in thousands of United States dollars, except per share amounts)

Company. Newport issued 400,000 common shares to enter into the Option Agreement, 200,000 of which are subject to a Net Proceeds and Royalty Agreement ("Proceeds Interest") with Miramar Mining Corporation ("Miramar") (Note 5(b)(iv)). Newport was to assume and pay carrying costs relating to the Company's operating costs in Cuba up to a maximum of \$20 per month and to complete a program, to a maximum of \$750, of sampling suitable for metallurgical test work within 12 months from approval of the acquisition in order to complete a bankable feasibility study.

To date, the Company has received no operating costs from Newport with respect to the project. The Company has paid expenses relating to the project, which are included in mineral property interests, and an allowance for the receivable relating to the costs to be paid by Newport has been offset against the costs paid by the Company.

The Company and Newport agreed on the following terms with respect to the financing that will be required to place the Mantua project into commercial production:

- (a) Should the Company identify, negotiate and secure a credit facility satisfactory to Newport in order to commence commercial production, Newport will issue 1,400,000 common shares to the Company in consideration. In this case, Newport will assume \$20,000 of the approximate \$28,000 subordinated debt owing to the Company by Geominera, leaving the Company with \$8,000 of the subordinated debt;
- (b) Should Newport identify, negotiate and secure project financing for commercial production on its own account, Newport would only assume \$14,000 of the subordinated debt owing to the Company by Geominera, leaving the Company with the balance of the subordinated debt; and
- (c) All costs incurred by the Company and/or Newport in negotiating and settling such financing as described above will be a charge to Mantua.

Upon fully exercising the option over the shares in Mantua, Newport agrees to assume the obligations of the Proceeds Interest (Note 5(b)(iv)) with respect to the Mantua project.

(iv) Royalty and net proceeds interest payable

In December 1999, the Company reached an agreement to restructure and partially settle amounts owing to Miramar Mining Corporation ("Miramar"). Under the agreement, the Company also issued a Proceeds Interest of Cdn\$17,987. The agreement was subsequently restructured and the maximum amount payable is Cdn\$15,000. The agreement entitles Miramar to receive the economic equivalent of a 2.5% net smelter returns royalty on all production from the Company's mining properties held at the time of entering into the agreement, as amended or 50% of the net proceeds of disposition of any interest in the Agua Rica or Mantua projects until the Proceeds Interest is paid. The Proceeds Interest balance payable at December 31, 2003, is \$11,529 (Cdn\$14,948) and is deducted from mineral property interests.

6. EQUITY INVESTMENT IN MINERA ALUMBRERA LTD.

The acquisition of the 12.5% indirect interest in the Bajo de la Alumbrera Mine, held by Minera Alumbrera Ltd. ("Alumbrera"), has been accounted for using the equity method and earnings of Alumbrera have been included in the earnings of the Company since June 24, 2003. On April 3, 2003, the Company entered into an agreement with Rio Algom Ltd. ("Rio Algom"), a subsidiary of BHP Billiton Ltd., ("BHP Billiton") and Wheaton River Minerals Ltd. ("WRM") to acquire BHP Billiton's 25% interest in Alumbrera for a total price of approximately \$180,000. The Company paid \$88,600 for its 12.5% indirect interest in Alumbrera, of which an initial \$28,600 was deferred by Rio Algom until May 30, 2005 (Note 7). Of this deferral, \$25,000 carried an interest rate of 3-month LIBOR plus 2% and any amounts due in excess of \$25,000 carried an interest rate of 3-month LIBOR plus 5%. In case of default, the rate will be 3-month LIBOR plus 10%. During the year, the amounts in excess of \$25,000 were repaid. In addition to the initial purchase price of \$88,600, additional acquisition costs of \$2,914 were incurred. The excess of the carrying value over the purchase price of the net assets of Alumbrera of \$7,937 was attributed to mineral properties.

Long-term project debt held by Alumbrera was incurred to finance the construction and operation of the Alumbrera Mine. The debt, formalized by a Common Security Agreement between Alumbrera, the owners of Alumbrera, and a consortium of commercial banks, was originally signed on February 26, 1997. The remaining balance outstanding at December 31, 2003, is \$154,092, of which \$89,677 is current. There are certain pledges and mortgages associated with this agreement that apply to Alumbrera's assets. The project debt is non-recourse to the Company and bears interest at LIBOR plus 1.5% to 1.75%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Under the project debt agreement, Alumbreira is required to maintain a Senior Debt Reserve Account in a segregated offshore trust account which is used to set aside funds for the servicing of upcoming, scheduled long-term debt repayments.

The following is a summary of the allocation of the purchase price:

Purchase price	
Cash	\$ 60,000
Loans from vendor	28,600
Acquisition costs	2,914
	91,514
Net assets acquired	
Cash	7,034
Appropriated cash	2,921
Non-cash working capital	3,675
Property, plant and equipment	93,496
Other	20,497
Provision for reclamation and closure	(1,639)
Future income tax liabilities	(18,102)
Non-current portion of long-term debt	(16,368)
	91,514
Equity investment in Minera Alumbreira	
Purchase price	91,514
Equity in earnings	10,562
Cash distribution received	(7,491)
	\$ 94,585

A summary of 100% of the assets, liabilities and results of the operations of Alumbreira for the period from the Company's acquisition of 12.5% to December 31, 2003, and as at December 31, 2003, is as follows:

	December 31, 2003
Total current assets	\$ 311,477
Total non-current assets	960,872
Total Assets	\$ 1,272,349
Total current liabilities	\$ 230,178
Total non-current liabilities	337,394
Total Liabilities	567,572
Total Equity	704,777
Total Liabilities and Equity	\$ 1,272,349
Revenue from ordinary activities	\$ (290,253)
Expenses from ordinary activities	169,536
Current income tax expense	36,215
Income for Equity Accounting Purposes	\$ 84,502

7. LONG-TERM DEBT

	December 31, 2003	December 31, 2002
Agua Rica		
Payable to BHP Billiton (a)	\$ 8,583	\$ -
Alumbreira		
Payable to Rio Algom Limited at 3-month LIBOR plus 2% (b)	25,000	-
	\$ 33,583	\$ -

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(a) *Agua Rica*

On April 23, 2003, the Company entered into a definitive agreement with BHP Billiton to purchase BHP Billiton's approximate 72% interest in the Agua Rica project for consideration of \$12,600 of which BHP Billiton has agreed to defer \$9,000 (the "Deferred Payment") without interest until June 30, 2005, with the balance payable on closing, which was May 8, 2003. Imputed interest of \$603 is being amortized over the term of the loan, of which \$417 is unamortized at December 31, 2003. The Deferred Payment is secured by a first charge on the approximately 72% interest acquired, a second charge on the approximately 28% interest already held by the Company and a mortgage of certain of the core claims comprising the Agua Rica project. At the time of acquisition, the Company entered into an agreement with Endeavour Mining Capital Corp. ("Endeavour Mining") whereby Endeavour Mining agreed to provide a convertible loan (the "Loan") of \$3,000 to fund a portion of the initial payment required to be made to BHP Billiton. The Loan was for a term of six months with an interest rate of 10% per annum. The Company provided a loan guarantee to Endeavour Mining as well as a pledge of its 28% holdings in the Agua Rica project. Pursuant to the commitment letter, the Company issued to Endeavour Mining 300,000 warrants of the Company exercisable at a price of Cdn\$1.50 to acquire one common share for two years from the date of issue. The fair value of these warrants of \$162 is included in the acquisition costs of Agua Rica and in shareholders' equity. Endeavour Mining received commitment and drawdown fees totalling \$150 for entering into these arrangements. The Company repaid the loan during the year ended December 31, 2003.

(b) *Bajo de la Alumbra*

On June 24, 2003, the Company completed its acquisition of a 12.5% indirect interest in Alumbra (Note 6). Rio Algom deferred payment of \$28,600 of the purchase price until May 30, 2005. The first \$25,000 of the deferred payment bears interest of 3-month LIBOR plus 2%. The balance of the deferred amount of \$3,600 carried an interest rate of 3-month LIBOR plus 5%. This balance was repaid prior to December 31, 2003. Interest is paid monthly, with the principal payment due on May 30, 2005.

8. SHARE CAPITAL

(a) *Authorized*

700,000,000 common shares without par value
100,000,000 first preference shares without par value
100,000,000 second preference shares without par value

(b) *Issued and outstanding*

(i) On March 18, 2003, the Company completed a private placement for total proceeds of \$2,558 through the issuance of 4,000,000 units at Cdn\$1.00 and Cdn\$1.15 per unit. Each unit consisted of one common share and one share purchase warrant. Each whole warrant is exercisable into one common share of the Company at a price of Cdn\$1.30 until March 18, 2005. No finders' fee or commission was paid with respect to this private placement.

(ii) In June 2003, the Company completed a private placement for the sale of 81,040,308 special warrants at Cdn\$1.30 per unit. Each unit consisted of one common share and one half-warrant, each full warrant entitling the holder to purchase one additional share of the Company at a price of Cdn\$2.00 per share until May 29, 2008. On July 25, 2003, the Company received a final receipt for a prospectus qualifying the distribution of 81,040,308 common shares and 40,520,155 common share purchase warrants upon the exercise of the 81,040,308 special warrants. The gross proceeds from the special warrants were allocated as to Cdn\$1.20 for the common share and Cdn\$0.10 for the warrant. Share issue costs relating to the warrants and the common shares of \$6,832 were also allocated in the same proportion.

(c) *Warrants*

Pursuant to the conversion of the special warrants to common shares and share purchase warrants in (b) (ii) above, 40,520,155 share purchase warrants commenced trading on the Toronto Stock Exchange. At December 31, 2003, all of these warrants are outstanding.

As at December 31, 2003, in addition to the trading warrants, the following share purchase warrants issued in connection with financings made by private placements were outstanding.

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Number of Warrants	Exercise Price (Cdn\$)	Expiry Date
50,000	0.75	March 8, 2004
2,000,000	1.30	August 2, 2004
2,934,000	1.30	March 18, 2005
100,000	1.50	April 23, 2005
200,000	1.50	May 8, 2005
5,284,000		

	Number of Shares	Weighted Average Exercise Price (Cdn\$)
Balance, December 31, 2000	—	—
Warrants issued or granted	1,000,000	2.00
Balance, December 31, 2001	1,000,000	2.00
Warrants issued or granted	2,080,000	1.28
Balance, December 31, 2002	3,080,000	1.52
Warrants issued or granted	4,300,000	1.31
Warrants exercised during year	(2,096,000)	1.63
Balance, December 31, 2003	5,284,000	1.31

(d) Stock options

The Company has a stock option plan for its directors and employees to acquire common shares of the Company at a price determined by the fair market value of the shares at the date of grant. The plan currently allows for the issue of up to 10,390,040 stock options. The directors of the Company set the option price at the time the option is granted, provided that such price is not less than the closing market price of the common shares on the last trading day before the date of grant. Options have a maximum term of ten years and usually terminate 30 days following the date of termination of employment. The stock option plan includes share appreciation rights providing for an optionee to elect to terminate options and to receive an amount in common shares equal to the difference between the fair market value at the time of termination and the exercise price for those options terminated. At December 31, 2003, the maximum aggregate number of common shares reserved for issuance pursuant to the plan is 8,740,000 common shares.

A summary of the changes in stock options for the years ended December 31, 2003, 2002 and 2001 is presented below:

	Number of Shares	Weighted Average Exercise Price (Cdn\$)
Balance, December 31, 2000	609,500	3.50
Granted	770,000	1.50
Cancelled, forfeited and expired	(624,500)	3.30
Balance, December 31, 2001	755,000	1.50
Cancelled, forfeited and expired	(85,000)	1.50
Balance, December 31, 2002	670,000	1.50
Granted	8,345,000	1.39
Exercised	(275,000)	1.36
Balance, December 31, 2003	8,740,000	1.40
Fully vested and available for exercise, December 31, 2003	8,740,000	1.40

The following table summarizes information about the stock options outstanding at December 31, 2003:

Exercise Price Cdn\$	Outstanding at December 31, 2003	Exercisable at December 31, 2003	Remaining Contractual Life
1.50	620,000	620,000	2.67 years
1.30	815,000	815,000	4.17 years
1.70	150,000	150,000	4.32 years
1.35	6,790,000	6,790,000	4.46 years
1.35	130,000	130,000	4.48 years
2.60	235,000	235,000	4.82 years
	8,740,000	8,740,000	

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The fair values of options granted during 2003 and 2002 were determined using a Black-Scholes option pricing model, recognizing forfeitures as they occur, using the following assumptions:

	2003	2002
Risk-free interest rate	3.02% - 4.68%	4.68%
Expected life	2 - 2.5 years	3.75 years
Expected volatility	93% - 137%	93%
Expected dividends	\$nil	\$nil

Under this fair value method, non-employee stock-based payments are based upon the fair value of the instruments as the services are provided and the securities are earned. Non-employee stock-based compensation expense recognized for the year ended December 31, 2003, was \$142 (2002 - \$nil; 2001 - \$nil). Employee stock-based option expense recognized for the year ended December 31, 2003, was \$5,350 (2002 - \$20; 2001 - \$52). There was no unrecognized expense at December 31, 2003.

9. SUPPLEMENTARY CASH FLOW INFORMATION

	December 31, 2003	December 31, 2002	December 31, 2001
Non-cash transactions			
Interest and finance capitalization to mineral property interests	\$ 746	\$ (160)	\$ 413
Reversal of mineral property costs recorded in accounts payable and accrued liabilities	—	—	212
Stock-based compensation capitalized in mineral property interests	593	—	—
Equity portion of convertible debt included in contributed surplus	(423)	—	—
Fair value of warrants issued on Agua Rica financing included in mineral property interests	162	—	—
Long-term debt incurred in acquisition of mineral property interests	8,583	—	—
Long-term debt incurred in equity investment in Minera Alumbrera Ltd.	28,600	—	—
Interest converted into convertible promissory notes	—	—	2,799
Convertible debenture and interest converted into convertible promissory notes	—	—	1,829
Financing fees paid by issuance of common shares	—	19	—
Shares received for mineral property option	—	33	—
Shares issued upon conversion of convertible promissory notes to equity	—	4,476	13,839
Increase in mineral property interests due to increase in future income tax liability	—	—	107
Shares received for settlement of accounts receivable	—	57	—
Other disclosures			
Interest paid	523	—	—
Income taxes paid	3	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10. RELATED PARTY TRANSACTIONS AND BALANCES

	Years ended December 31,		
	2003	2002	2001
Services rendered			
Management fees and expenses (a)	\$923	\$387	\$253
Administration fees (b)	\$147	\$108	\$52

Related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:

- (a) The Company paid management fees and expenses to private companies controlled by officers and directors of the Company. At December 31, 2003, \$38 (December 31, 2002 - \$4) was payable to these companies and is included in accounts payable.
- (b) The Company paid administrative expenses to a private company with a director and an officer in common with the Company. This private company provides office services and other administrative services on a full cost recovery basis. At December 31, 2003, \$31 (December 31, 2002 - \$24) was receivable from this company and is included in other current assets.
- (c) During the year ended December 31, 2003, a director and officer of the Company was appointed a director of Newport (Note 5 (b)(iii)). At December 31, 2003, the Company has a receivable of \$189 from Newport pursuant to the terms of the option agreement, for costs incurred to June 30, 2003. The Company has not accrued costs receivable from Newport for the three months ended December 31, 2003, as no funds have been received from Newport to date, and it is uncertain as to whether Newport will continue with the option agreement. An allowance has been set up relating to the receivable from Newport and the costs have been capitalized to the Mantua mineral property. The Company continues to fund the Mantua project.

All related party transactions were recorded at the amounts agreed upon between the parties. The balances payable noted above are payable on demand without interest.

11. INCOME TAXES

The provision for income taxes reported differs from the amounts computed by applying cumulative Canadian federal and provincial tax rates to the loss before tax provision due to the following:

	2003	2002	2001
Statutory tax rate	37.62%	39.62%	42.62%
Net earnings (loss) for the year	\$ 2,356	\$ (1,269)	\$ (882)
Equity earnings of Minera Alumbrera Ltd.	10,562	—	—
Adjusted loss for tax purposes	(8,206)	(1,269)	(882)
Expected tax (recovery) expense	(3,087)	(503)	(376)
Debt forgiveness	—	344	5,103
Foreign exchange revaluation	—	735	746
Non-deductible expenses	2,061	—	—
Unrecognized and expired losses	1,026	329	441
Change in valuation allowance	—	(905)	(5,914)
Income taxes, per financial statements	—	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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At December 31, 2003, the Company has unused tax losses carried forward in Canada of \$6,000 (2002 - \$845), which will expire in the years 2009 and 2010 which are available to reduce taxable income in future years otherwise calculated. The ability of the Company to utilize these losses is not considered by management to be more likely than not and therefore a valuation allowance has been provided against the future income tax asset. The Company also has \$nil (2002 - \$295) of Argentine tax losses. The ability of the Company to utilize these losses is not considered by management to be more likely than not and a valuation allowance has been provided against the future income tax asset. The significant components of the Company's future tax assets (liabilities) are as follows:

	2003	2002
Future income tax assets		
Losses carried forward	\$ 2,558	\$ 396
Mineral property interests representing excess of tax basis over carrying value	—	735
Share issue costs	2,027	—
	4,585	1,131
Valuation allowance for future tax assets	(4,414)	(920)
	171	211
Future income tax liabilities		
Future income tax liability for finance costs	(171)	(211)
Future income tax liability for mineral property interests representing excess of carrying value over tax basis	(18,885)	(15,520)
	(19,056)	(15,731)
Net future income tax liability	\$ (18,885)	\$ (15,520)

The future income tax liability for mineral property interests recorded by the Company arises from the investment in Agua Rica in Argentina. The purchase price and subsequent funds advanced to this project do not currently have a cost for tax purposes in the jurisdiction that the Company holds the interest.

12. SEGMENTED INFORMATION

(a) Operating segment - The Company's operations are primarily directed towards the exploration and development of mineral properties in Latin America. The Company's mining activities represent a single reportable segment.

(b) Geographic segments - The Company's identifiable capital assets and revenues by geographic areas are as follows:

2003	Capital Assets	Revenues
Central America	\$ 20,245	\$ 5
South America	150,333	10,562
Canada	12	433
	\$ 170,590	\$ 11,000
2002	Capital Assets	Revenues
Central America	\$ 17,099	\$ —
South America	35,689	—
Canada	1	13
	\$ 52,789	\$ 13

Capital assets are comprised of plant and equipment and mineral properties and deferred exploration and development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2003, 2002 and 2001

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13. DIFFERENCES IN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES BETWEEN CANADA AND THE UNITED STATES

These financial statements are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). The differences between Canadian GAAP and accounting principles generally accepted in the United States ("U.S. GAAP") as they relate to these financial statements are summarized below:

Consolidated Statements of Operations

	Years ended December 31,		
	2003	2002	2001
Earnings (loss) under Canadian GAAP	\$ 2,356	\$ (1,269)	\$ (882)
Mineral property (expense) recovery (a)	(1,989)	91	(301)
Amortization of plant and equipment (f)	(262)	(397)	(396)
Amortization of mineral property interest (a)	(282)	—	—
Equity in earnings of Minera Alumbra Ltd. (m)	(539)	—	—
Foreign exchange loss (a)	436	—	—
Loss under U.S. GAAP	\$ (280)	\$ (1,575)	\$ (1,579)
Loss per share basic and diluted	\$ (0.00)	\$ (0.10)	\$ (0.15)

Consolidated Balance Sheets

	December 31, 2003			December 31, 2002		
	Canadian GAAP	Adjustments	U.S. GAAP	Canadian GAAP	Adjustments	U.S. GAAP
Assets						
Marketable securities (b)	\$ 150	\$ 193	\$ 343	\$ 90	\$ (13)	\$ 77
Other current assets	11,547	—	11,547	503	—	503
Plant and equipment (f)	1,633	(1,621)	12	1,386	(1,112)	274
Mineral property interests (a)	74,372	(61,957)	12,415	51,403	(51,403)	—
Equity investment in Minera Alumbra Ltd. (i)	94,585	(539)	94,046	—	—	—
Total assets	\$182,287	\$(63,924)	\$118,363	\$53,382	\$(52,528)	\$854
Liabilities						
Total current liabilities	\$ 941	\$ —	\$ 941	\$ 271	\$ —	\$ 271
Asset retirement obligations (g)	97	—	97	—	—	—
Future income taxes	18,885	(18,885)	—	15,520	(15,520)	—
Other long-term liabilities	33,583	—	33,583	25	—	25
Total liabilities	53,506	(18,885)	34,621	15,816	(15,520)	296
Shareholders' equity	128,781	(45,039)	83,742	37,566	(37,008)	558
Total liabilities and shareholders' equity	\$182,287	\$(63,924)	\$118,363	\$53,382	\$(52,528)	\$854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2003, 2002 and 2001

(Expressed in thousands of United States dollars, except per share amounts)

	Common Shares		Special Warrants		Share Purchase Warrants		Additional Paid-in Capital	Other Comprehensive Income	Deficit	Total
	Shares	Amount	Warrants	Amount	Warrants	Amount				
Balance, December 31, 2000	8,943,060	\$ 92,310	—	\$ —	—	\$ —	\$ —	\$ —	\$(109,760)	\$(17,450)
Private placement, less share issue costs	1,000,000	526	—	—	1,000,000	452	—	—	—	978
Share issue costs	—	(17)	—	—	—	—	—	—	—	(17)
Conversion of convertible debenture	1,443,962	13,839	—	—	—	—	—	—	—	13,839
Fair value of stock options	—	—	—	—	—	—	52	—	—	52
Cumulative translation adjustment	—	—	—	—	—	—	—	323	—	323
Loss for the year	—	—	—	—	—	—	—	—	(1,579)	(1,579)
Balance, December 31, 2001	11,387,022	106,658	—	—	1,000,000	452	52	323	(111,339)	(3,854)
Private placements, less share issue costs	2,833,333	1,206	—	—	2,050,000	366	—	—	—	1,572
Share issue costs	—	(46)	—	—	—	—	—	—	—	(46)
Shares issued for services	30,000	12	—	—	30,000	7	—	—	—	19
Conversion of promissory notes	4,609,737	4,476	—	—	—	—	—	—	—	4,476
Fair value of stock options	—	—	—	—	—	—	20	—	—	20
Unrealized gain on marketable securities	—	—	—	—	—	—	—	(13)	—	(13)
Cumulative translation adjustment	—	—	—	—	—	—	—	(41)	—	(41)
Loss for the year	—	—	—	—	—	—	—	—	(1,575)	(1,575)
Balance, December 31, 2002	18,860,092	112,306	—	—	3,080,000	825	72	269	(112,914)	558
Private placement	4,000,000	1,298	—	—	4,000,000	1,260	—	—	—	2,558
Special warrants financing	—	—	81,040,308	77,408	—	—	—	—	—	77,408
Share issue costs	—	—	—	(6,832)	—	—	—	—	—	(6,832)
Warrants exercised	2,096,000	3,380	—	—	(2,096,000)	(794)	—	—	—	2,586
Stock options exercised	275,000	424	—	—	—	—	(139)	—	—	285
Special warrants exercised	81,040,308	71,454	(81,040,308)	(77,408)	40,520,155	5,954	—	—	—	—
Share issue costs on special warrants	—	(6,304)	—	6,832	—	(528)	—	—	—	—
Stock-based compensation	148,148	144	—	—	—	—	5,492	—	—	5,636
Agua Rica financing - warrants and debt extinguishment	—	—	—	—	300,000	162	423	—	—	585
Cumulative translation adjustment	—	—	—	—	—	—	—	1,032	—	1,032
Marketable securities	—	—	—	—	—	—	—	206	—	206
Earnings (loss) for the year	—	—	—	—	—	—	—	—	(280)	(280)
Balance, December 31, 2003	106,419,548	\$182,702	—	\$ —	45,804,155	\$6,879	\$5,848	\$1,507	\$(113,194)	\$ 83,742

Consolidated Statements of Cash Flows

	Years ended December 31,		
	2003	2002	2001
Operating activities			
Operating activities under Canadian GAAP	\$ 5,777	\$ (1,357)	\$ (1,041)
Exploration (a)	(684)	(102)	(3)
Operating activities under U.S. GAAP	5,093	(1,459)	(1,044)
Investing activities			
Investing activities under Canadian GAAP	(67,137)	(102)	(3)
Exploration (a)	684	102	3
Investing activities under U.S. GAAP	\$ (66,453)	\$ —	\$ —

(a) Exploration expenses

Canadian GAAP allows exploration costs and costs of acquiring mineral rights to be capitalized during the search for a commercially mineable body of ore. Under U.S. GAAP, exploration expenditures can only be deferred subsequent to the establishment of mining reserves. For U.S. GAAP purposes, the Company has expensed its exploration expenditures.

Furthermore, under U.S. GAAP, the costs of acquisition of mineral property rights are generally classified as intangible assets and should be amortized over their useful life which, in the case of a mineral right on a property without proven and probable reserves, is the lesser of the period to expiry of the right and the estimated period required to develop or further explore the mineral assets. Under Canadian GAAP, costs of acquiring mineral rights may be considered as tangible property. As a result, for U.S. GAAP purposes, the Company is amortizing the cost of the mining rights acquired for the Agua Rica project.

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(B) Marketable securities

In preparation of the Canadian GAAP financial statements, the Company recorded its investment in marketable securities at cost. Under Statement of Financial Accounting Standards ("SFAS") No. 115, the Company has classified its portfolio investments as available-for-sale securities and the investments are recorded at market value. The resulting gains or losses are included in other comprehensive income. Under Canadian GAAP, the Company generally records short-term investments at the lower of cost and market value, with any unrealized losses included in the determination of net income. The adjustment for the year ended December 31, 2003, to record unrealized gains not already recognized under Canadian GAAP was \$193 (2002 - (\$13)).

(c) Comprehensive income

Comprehensive income is measured in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This standard defines comprehensive income as all changes in equity other than those resulting from investments by owners and distributions to owners. Comprehensive income is comprised of net earnings and other comprehensive income where other comprehensive income is the change in equity during the period that arises from transactions and other events that are related to non-owner sources. The concept of comprehensive income does not currently exist under Canadian GAAP.

(d) Income taxes

Under Canadian GAAP, future income taxes are calculated based on enacted or substantially enacted tax rates applicable to future years. Under U.S. GAAP, only enacted rates are used in the calculation of future income taxes. This difference in GAAP did not result in a difference in the financial position, results of operations or cash flows of the Company for the years ended December 31, 2003 and 2002.

(e) Share purchase warrants

The Company, from time to time, issues special warrants which are normally comprised of a common share and either a whole or portion of a share purchase warrant. The special warrant is issued at the current market value of the common share and the share purchase warrant is normally exercisable at or higher than market value. Under Canadian GAAP the proceeds of the special warrant are allocated to the common share with no value being assigned to the share purchase warrant. Under U.S. GAAP the gross proceeds would be allocated between the shares and warrants based on the relative fair value of the special warrant components at the date the Company has a contractual liability to issue the special warrants. Under Canadian GAAP, no values were assigned to these purchase warrants, except with regard to the 2003 special warrant offering which did specify and allocate part of the proceeds to the share purchase warrant. Under U.S. GAAP, share purchase warrants would be recorded at the pro rata portions of the proceeds based on their fair values and be recorded as additional paid in capital at the date of issuance.

(f) Amortization of plant and equipment

In March 2000, the Company discontinued the depreciation of its mine plant and equipment upon the completion of the gold phase at Mantua. Under U.S. GAAP, depreciation on time-based depreciable assets does not stop when assets are not in use. For U.S. GAAP purposes, the Company has continued to depreciate these assets.

(g) Asset retirement obligation

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations ("SFAS 143"), which addresses financial accounting and reporting for obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of long-lived assets, except for certain obligations of leases. SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded an entity capitalizes the cost by increasing the carrying amount of the related long-lived assets. Over time the liability is accreted to its present value each period, and the capitalized cost is amortized over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002, with earlier application encouraged. The adoption of SFAS No. 143 does not have a material impact on the Company's financial position.

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(h) *Stock-based compensation*

Fair value accounting for stock-based compensation was adopted by the Company under Canadian GAAP effective January 1, 2002, which substantially harmonized Canadian GAAP with U.S. GAAP.

(i) *Accounting for derivative instruments and hedging securities*

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, is effective for all fiscal years beginning after June 15, 2000, and standardizes the accounting for derivative instruments. The Company has chosen, for U.S. GAAP purposes, to mark its gold and interest rate derivative contracts to market.

(j) *Guarantors and guarantees*

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, ("FIN 45"). FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 will be effective for any guarantees that are issued or modified after December 31, 2002. The Company has determined that the impact of the Statement on the Company's results of operations or financial position is not material.

(k) *Accounting for impairments*

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. Although retaining many of the fundamental recognition and measurement provisions of SFAS No. 121, the new rules significantly change the criteria that would have to be met to classify an asset as held-for-sale. The statement also supersedes certain provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, and will require expected future operating losses from discontinued operations to be displayed in discontinued operations in the period(s) in which the losses are incurred rather than as of the measurement date, as presently required. As required by SFAS No. 144, the Company adopted this new statement on March 1, 2002. The adoption of SFAS No. 144 did not have a material impact on the Company's financial position, results of operations or cash flows.

(l) *Costs of exit for disposal of activities*

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal of Activities. SFAS No. 146 requires that the liability for a cost associated with an exit or disposal activity is recognized at its fair value when the liability is incurred. Under previous guidance, a liability for certain exit costs was recognized at the date that management committed to an exit plan, which was generally before the actual liability had been incurred. As SFAS No. 146 is effective only for exit or disposal activities initiated after December 31, 2002, the Company does not expect the adoption of this Statement to have a material effect on its financial statements.

(m) *Newly released accounting standards*

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), Consolidation of Variable Interest Entities, that addresses the consolidation of variable interest entities. In December 2003, the FASB issued a revised Interpretation "FIN 46R". Under the revised Interpretation, an entity deemed to be a business, based on certain specified criteria, need not be evaluated to determine if it is a Variable Interest Entity. The Company must apply the provisions to variable interest in entities created before February 1, 2002, during the quarter ended December 31, 2003. Adoption of FIN 46 and FIN 46R did not have an impact on the Company's financial condition or results of operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2003, 2002 and 2001

(Expressed in thousands of United States dollars, except per share amounts)

In April 2003, the FASB issued Statement No. 149 ("SFAS No. 149"), Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 is intended to result in more consistent reporting of contracts as either freestanding derivative instruments subject to Statement 133 in its entirety, or as hybrid instruments with debt host contracts and embedded derivative features. In addition, SFAS No. 149 clarifies the definition of a derivative by providing guidance on the meaning of initial net investments related to derivatives. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003. The Company does not believe the adoption of SFAS No. 149 will have a material effect on its consolidated financial positions, results of operations or cash flows.

In May 2003, the FASB issued Statement No. 150 ("SFAS No. 150"), Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS No. 150 represents a significant change in practice in the accounting for a number of financial instruments, including mandatory redeemable equity instruments and certain equity derivatives. SFAS No. 150 is effective for all financial instruments created or modified after May 31, 2003, and to other instruments as of September 1, 2003. The Company will adopt the provisions of SFAS No. 150 on July 1, 2003. The Company does not expect that the adoption of SFAS No. 150 will have a material impact on its results of operations or financial position.

14. SUBSEQUENT EVENTS

Subsequent to December 31, 2003:

- (a) 651,000 purchase warrants were exercised at prices ranging from Cdn\$0.75 to Cdn\$1.50 per common share and 490,000 stock options were exercised at prices ranging from Cdn\$1.30 to Cdn\$2.60 per common share for proceeds of Cdn\$1,747. In addition, 300,000 stock options were granted to an officer of the Company at a price of Cdn\$3.15 per common share, expiring on March 11, 2009.
- (b) The Company entered into a \$24,500 term loan facility with the Bayerische Hypo-und Vereinsbank ("HVB"). The proceeds from the term loan were used to pay the balance of the deferred portion of the purchase price payable to Rio Algom of \$25,000 (Note 7). The HVB term loan facility has a 4 1/2 year term at U.S. dollar LIBOR plus 3.5% per annum for the first three years of the facility and U.S. dollar LIBOR plus 4.0% per annum thereafter. In connection with the facility, the Company issued 1,000,000 common share purchase warrants to HVB. The warrants have a three-year term and are exercisable at a price of Cdn\$4.74 to acquire one common share of the Company. Mandatory principal repayments are due as follows:

Date	Principal Repayment
December 31, 2004	\$2,500
June 30, 2005	2,500
December 31, 2005	3,000
June 30, 2006	5,000
December 31, 2006	5,000
June 30, 2007	1,000
December 31, 2007	2,750
June 30, 2008	2,750
	<u>\$24,500</u>

The Company may make prepayments in multiples of \$1,000. Interest payments are to be made on the last day of each interest period, which shall not exceed three months and will be payable in three month periods thereafter. The loan is secured by the security agreements and shares owned in the Company's direct and indirect interest in Alumbrera.





**NORTHERN
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RESOURCES INC.



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STOCK INFORMATION

Shares Outstanding 107,712,048

Fully Diluted 162,248,703

CUSIP# 665575106

Warrant CUSIP# 66557D125

Trading Symbols: TSX: NNO

AMEX: NTO

Warrants: TSX: NNO.WT

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